GENERAL REPORT

ACTING COMMISSIONER W. F. O'CONNOR, K.C.

RE

COST OF LIVING

SUGAR

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GENERAL REPORT OF W. F. O'CONNOR, K.C., ACTING COMMISSIONER RE COST OF LIVING.

OTTAWA, May 18, 1917.

To Hon. T. W. CROTHERS,
Minister of Labour,
Ottawa.

I am now ready to commence delivery to you, at weekly stages, reports concerning the commodities which at your request I have been investigating. One of such reports, concerning the production, cost, selling prices, and distribution system of refined sugar, I have already completed, and I deliver it herewith. Others are rapidly approaching completion and will be delivered at short intervals. My report on anthracite coal is about ready; also that upon my investigation into cold storage commodities. The last mentioned investigation was an ambitious effort, undertaken by a small, and at the beginning comparatively uninformed staff, but in the result reasonably complete and satisfactory returns were obtained from every known cold storage establishment in Canada. The information which the cold storage report will convey will be found, as I venture to submit, of very great value. It will cover such commodities as butter, eggs, cheese, beef, pork, bacon, ham, mutton, lamb, and six varieties of fish. Investigations into the canning business, the flour-milling business, the ice business, and into the production and marketing of bread, potatoes, and other food products, are proceeding. Other investigations covering salt, textiles, knit goods, silk, raisins, sauces, vinegars, yeast, fancy cheeses, starch, syrups, and condensed milks are, some extensively, others but slightly advanced. As I report from time to time I shall recommend any action considered by me to be desirable.

The system of investigation pursued, where possible, has been to secure information as to quantities on hand, cost and selling price of particular commodities as of a special date (which in most cases has been made January the first of this year) to obtain for purposes of comparison, similar particulars for three previous years, and to require monthly reports with similar information thereafter. For the cold storage business this system has been completely established. In other lines, requiring, to cover the whole field, communication monthly with a very large number of dealers, unless the present staff were very largely augmented, the complete installation and operation of such system would be impossible, so it is operated upon a selected list of dealers for the purpose of tracing and recording costs and prices only. But as fully applied to cold storage products it goes much further and has a value apart from the matter of costs and prices. It enables a monthly stock taking of the bulk of the meat, fresh fish and dairy products of the country. By means of a simply devised card system and tabulations it enables the quick discovery of not only how much of a given commodity is in cold storage within Canada on the first of any month, but also just where it is held, its cost and value. Comparisons with conditions of previous years are available as a check upon undue accumulation. I have noted some recent expressions of doubt as to the value of the investigations made and being made, with direct relation to their effect in reducing the cost of commodities. It is asked "How much have they reduced the cost of eggs or butter or flour?" The answer, *ex necessitate,* is "one cannot tell." Neither can one establish the proportion of lives saved by the observance of health regulations, or of the crimes which would have been committed were it not for fear of the police. Men die. Crimes are committed. But nobody ever asks

"What's the use?" The most cursory perusal of the Order in Council under which the investigations referred to are being made will enable the discovery that it has only two aims:—

1. The prevention of any undue and unnecessary accumulation and withholding from sale in face of a fair price obtainable;

2. The prevention of combining in restraint of competition, or for the enhancement of prices.

These forbidden things are of a common *genus*. They constitute interference with the ordinary operations of the familiar "law of supply and demand." Whether, since when the Order in Council was made, the entry of the United States into the war as an ally—and the consequent constitution of almost all of the North American continent into one great zone whose food, fuel and clothing problem, mainly the same, need, in the event of international action, no longer remain subject to the existence of an adjacent international boundary line beyond which mere national laws have no effect and across which as an answer to action by way of embargo might have come reprisal—makes any difference, is not a matter with which I need deal nor express any opinion, unasked.

The Order in Council has been operated according to its terms, as they were found written. I have sought for evidence of undue accumulation and warned against it. I have carefully traced out costs and prices. I have many times insisted upon the right of proper buyers to buy at a fair price. I have searched for evidence of trade combines, located many, and caused them to dissolve. I shall not attempt to report to you as respects all these matters. They have constituted part of the days work and you are as familiar as I with most if not with all of them. You will be aware that at times we have been able in specific instances to prevent rises in price. But you will agree, I am sure, that the best success attained under the regulations has been by way of restraining and informing. The knowledge that costs and prices were undergoing constant supervision has, I am sure, done much to restrain undue inflation of prices. The information as to the cost to wholesalers and retailers, from time to time conveyed to inquirers who otherwise would have remained subject to the impression that advantage was being taken of the necessities of the poor, has resulted in a better understanding between the consumer and the dealer, both of whom, in fact, seem to be in most cases in almost the same box. I cannot too earnestly impress upon you, as I would like to impress upon all concerned, that notwithstanding any impression anywhere or by anybody held to the contrary effect, the manufacturing and trading classes of Canada, so far as my investigations have extended (and they have been wide and deep), seem, with very rare exceptions, to have resisted the temptations and withstood the strain of the times through which we are passing in a most commendable manner. In the investigation of some lines, notwithstanding greatly enhanced selling prices, I found that dealers were making less profit than when they had been selling the same lines for about half the present prices. In others I found to dealers in loyal performance of contracts made before advances in cost, selling consumers away below cost. Rarely only have I heard, even, of cases meet for criticism or complaint. I know that this isn't the popular conception of the situation. It isn't in fact the conception with which I began investigating. I know that what I am now writing is not the most popular thing that I could write. But I know my facts and have the proofs. This makes quite a difference when one's endeavour is to be fair. In the various reports that I shall place in your hands you will find these proofs, labouriously gleaned from many quarters. They are not based upon the word or oath of those investigated, merely. I have tapped many outside sources. I have had tireless assistance from a small but exceedingly competent staff.

I wish that I could as highly compliment the manufacturing and trading classes of Canada upon their accounting systems and business methods, as I can upon their

generally fair conduct so far as taking of profits is concerned, but I cannot do so. I have experienced the greatest of difficulty in securing from most of them data which their own best interests would dictate that they should have always immediately available. Very many manufacturers and merchants have no precise idea as to what their products or wares cost, and so they find it impossible to work out their precise profits. As to price fixing, some seem to sell for what they can get. They do not know their costs. Others make their prices the same as those of their competitors. Frequently I have noted that returns made showed profits in excess of real earnings. Essential elements entering into costs had been left out of calculation. Such manufacturers and merchants are simply "fooling themselves." Far too many of them charge themselves with nothing, or with too little, for depreciation. Others have no costs accounting system at all. Some are manufacturing or selling some lines which pay and other lines which do not pay, the losses due to the latter operating as a drag on the profits earned on the former. If they knew the facts they might drop the unprofitable lines. In the next block, maybe, is a struggling manufacturer or dealer who, if he could add to his trade the lines being manufactured or dealt in at a loss by the first-mentioned manufacturer, could coin money. The installation of a proper costs system by the first-mentioned manufacturer would save, perhaps, both concerns. Its absence may mean in the course of time two bankruptcies. What has this to do with the cost of living? Much. Every business loss must be met, and the consumer pays. John Jones, the shoe manufacturer, fails. Smith, the tanner, loses $1,000, and Anderson, the machinist, a like sum. These losses are part of the operating expenses of Smith's and Anderson's businesses. Every sensible manufacturer or merchant calculates as part of his operating expenses an amount based upon experience, to cover his losses by bad debts. He calculates his profits *in addition* to his operating expenses. The consumer pays, as part of the purchase price of every article he buys at ordinary prices, these operating expenses and profits as well. It is, therefore, to his interest that business be stabelized as much as possible, that it be well conducted, that bankruptcies be avoided. He is the one who pays. He may purchase a watch worth $20 for $10 on January 1 at a bankrupt sale, but, during the rest of the year, he will be contributing to somebody his share of the amount necessary to pay full price for not only that watch but for every other article that was sold below the cost of production and marketing within an undiscoverable area of influence. He cannot escape. If he could so could we all. We do not. We pay.

I believe, and a number of those investigated have been so kind as to so say, that these investigations have been of benefit to many through the forcing of them to look into aspects of their businesses to which they had not previously turned their thoughts. The information collected and provided for is capable of being turned greatly to the advantage of manufacturers and business men. The costs data furnished by *particular individuals* ought not under any circumstances be published. It might be taken advantage of by competitors. But the average costs of particular lines, or particular classes of businesses or of particular classes of industries, might be published, or communicated upon request, so that those interested might look into conditions affecting their businesses or industries and, if their costs were running high, be led to detect leaks, or improve methods, or quit. Thus could be placed at the disposal of each the benefit of the accounting skill of all. In any event the matter is indisputable that business men who carry on their enterprises vainly imagining that they are making profits which the services of any expert cost accountant for a few days would show are non-existent because of this cause or of that, are headed straight for the road to bankruptcy. Some businesses do not pay. There are too many in them. Others are being inefficiently conducted. Proper cost accounting systems will disclose real conditions. Every business man should know just where he stands.

I have now traced the course of action taken under you in the operation of the Order in Council covering the cost of living, reported some facts as I have found them, and presumed to venture some advice to business men. I have yet to make

some observations affecting the cost of living generally. I do not believe that any sane and thoughtful person imagined that the making of Order in Council No. 2777 of November 10, 1916, or anything possible to be done under it or under any other law, could obviate any direct consequence of the war, prevent a reduction of any crop, cheapen any ocean freight rate, or replace the lost productivity of many millions of men. It has its function which I have explained. I do not understand it to be an insurance against the high cost of living. I venture to submit that if on August 4, 1914, any one had predicted and been believed that on May 15, 1917, practically the whole world would be at war, with 30,000,000 men or more under arms, and that over 400,000 of these would be Canadians withdrawn from production and being financed and fed by Canada at an expense of over a million dollars per day, and that coincidently there would occur an almost world-wide shortage of crops, that a quotation of presently prevailing prices would not at all surprise. I think that the predominant thought would have been: "Anything, any hardship, any sacrifice, so long as we pull through." So I say that in so far as high prices are really due to war and crop conditions, only hard work and saving, production and avoidance of waste can serve.

I now proceed to a number of recommendations, the results of my experience as acting commissioner. In the first place, if your department is to continue and augment the "stock-taking" system, of which I have written, as a means of assisting in food control during the war, you will have to very largely increase your staff.

Next I feel bound to express to you my doubt as to the wisdom of further continuance of the present investigating powers of municipalities into the cost of living, and to suggest the advisability of repealing these powers and of making it necessary that municipalities which undertake the institution of investigations shall see them through to a finish. Such powers were granted at the request of the municipalities. The result of the grant has been, in almost every instance, an attempt to shelve upon this department irregularly instituted, irregularly conducted, and half concluded inquiries, which in some cases have constituted a mere duplication by way of local investigation of work already done, or in process of being done, by this department, as part of a general investigation. There is a temptation to civic governing bodies to institute such inquiries, carry them along while any eclat is to be derived from the exhibition of a popular activity, and, in case nothing is discovered which justifies the statements or charges which usually precede and accompany municipal investigations, or in case any circumstances develop which necessitate the unpopular proceeding of recommending a definite prosecution, to attempt to unload upon this department, at a time when perhaps it is engaged investigating other and different matters of Dominion-wide importance, all responsibility in the premises. Resort is had to the provision which authorizes "further investigation" by this department, a provision intended mainly for different circumstances, arising when a municipality, by reason of the limitations of its territorial jurisdiction, finds that local conditions have been produced by extra-territorial causes which it cannot inquire into. While I believe that as respects such purely local matters as the price of milk or ice within a municipality can best be, and ought always to be, inquired into by a local body (or else the larger and more important matters of inquiry necessary to be carried on by this department must be submerged and neglected owing to the necessity of attending, at great expense, to a multitude of purely local matters extending over one-sixteenth of the land surface of the globe) I submit that the conditions as related call for some remedy. To descend to the vernacular, there has developed on the part of municipalities considerably too much the art of "passing the buck". I therefore recommend that municipal investigations into the cost of living be instituted hereafter by mayors, wardens, reeves, or other head officers of municipalities and only upon prior application to the Minister of Labour and with his consent, and that once instituted the whole responsibility for such investigations to the end, rest with those who insti-

tute them. I know of no case of a satisfactory municipal investigation, properly instituted and seen through, but I believe that with proper responsibility imposed upon municipal officers and with no opportunity afforded for evasion of that responsibility, satisfactory municipal investigations could be had. I am convinced that the possibility of such investigations would have a restraining influence locally as respects accumulations, prices and local tradesmen's combines. This department cannot be aware of local conditions at all times and at all places. Yet another suggestion. In my judgment the interest and co-operation of the various provincial authorities should be sought. The jurisdiction of the Dominion authorities respecting cost of living has had to be rested upon its power to define what shall constitute a crime. The provisions of the Order in Council under which you act respecting the cost of living are criminal laws. Under our constitution, while the Dominion authority enacts criminal laws, the provincial authorities are charged with the enforcing of them. Laws against accumulations, unjust prices and combines having been provided by Dominion authority, the provincial authorities have seemingly exhibited no interest whatever in the matter, and curiously enough the general public seems to regard the responsibility for the administration of these laws as upon the Dominion. This is certainly not so. The Dominion actively prosecutes, as I understand the law, only where its revenues are affected as under the Customs or Inland Revenue Acts, or its federal interests, as under the Fisheries or Indian Acts. In such cases it has a quasi-personal right, in the nature of that of a private prosecutor who has been personally affected by the commission of a crime. Thus the provincial authorities are primarily responsible for the enforcement of the substantive law provided by the Order in Council respecting the cost of living. The Dominion powers are limited to investigating, which by the way it is best fitted to perform. My suggestion is that there be a getting together and a pulling together, with a clear understanding as to the relative responsibility of the various authorities. All are or ought to be interested in effecting desired results.

Finally let me direct your attention to the accompanying two reports of the Federal Trade Commission of the United States, concerning co-operation in American Export Trade. They express opinions with which my investigations have led me to agree.

In most European countries combinations of producers (manufacturing and other) when devised and operated under more or less complete state supervision, are within the law, and such combinations are common. Some have attained great strength, the benefit of which particularly exhibits itself when these combinations come into conflict in the foreign field with the competition of countries such as Canada and the United States, where trade combinations are not favoured. They usually sell abroad through a common exchange, and they are thus enabled to secure advantages as to price and capacity to fill large orders which could not be secured by isolated, competing enterprises. The strong reasons which undoubtedly exist against permitting such combinations to operate within home markets fail with relation to foreign markets. There we desire to sell as a nation merely a surplus production. And, by the way, under such a system of state supervised combinations to promote export trade, price fixing by the state, if such should become necessary, is made much easier. The foreign price can be fixed as well as the home price. Thus may excessive exporting be temporarily restricted as the occasion requires. The admitted danger of a possible effort on the part of such combinations formed for the purpose of promoting export trade to combine as well concerning home trade would be obviated by the constant presence of state supervision. Their every move, otherwise illegal, must be taken in the presence, so to speak, of the state, and with the state's prior imprimatur. Even in England there is much greater liberty of combination than obtains in Canada. There the coal, cement, pottery and some other extensive interests are combined for export business purposes, through common sales and distribution agencies. If my

recommendation that a Trade and Industrial Board be established, with jurisdiction over trade combines and trade methods, be concurred in, such a board might well direct its attention to the subject matter now being discussed. In my judgment greater selling efficiency will lead to better labour conditions and lower prices. I favour production to the utmost and the forced sale at the best obtainable price of any surplus. Factories operated at half time or three-quarters time are producing inefficiently. Canada's equipment for industrial effort is said to be of a capacity twice or three times greater than its home trade requirements demand. Only by forcing export trade or through the influx of an abnormal immigration of a non-industrial, preferably agricultural, class can extensive "scraping" of plants be avoided. Irregular employment reduces the artisian to the condition of a casual tramp. Fixed residence becomes impossible for him. The high wages so often quoted as his per diem rate sadly peter out when calculated at a per annum rate. Steady employment may enable lower per diem rates, but, whether or not, it would be beneficial alike to employer and employee. As a result of war conditions Canada is now selling all that she can produce. We ought to organize forthwith so that we may sell with efficiency when, after the coming of peace, the buyers now clamouring at our counters may require to be coaxed or informed. The problem of efficient production and efficient marketing of manufactures, which will never, as will our food stuffs, ordinarily, for instance, "sell themselves" is so intimately associated with that of the employment of labour, that your department may well exhibit a special interest therein. It involves the provision of employment, we know not how soon, but we hope very soon, for some hundreds of thousands of Canadians now temporarily absent on a great mission, performing an exalted national service. There will be much owing to our troops when they return. It is true that there will arise an extra demand for manufactured articles incidental to such return, which will in part care for the loss of employment incidental to the practical cessation of munitions production, but such demand will by no means care for all of such loss. There must ensue a temporary disruption of industry unless we anticipate and are ready to forestall. Merely to produce is well. But what is produced must be sold. If in discussing such matters as this it should be considered that I have wandered from my proper text "Costs and Prices," I shall not be able to agree. I consider that by increasing production, thus reducing the cost of production, and efficiently selling, thus reducing the cost of selling, not only the manufacturer but also the consumer gains. Prices depend upon costs. Lower costs enable lower prices. And, in this same connection, having in mind the demand for the establishment of a Board or Commission to deal with the legal and other aspects of inland trade, my humble suggestion is that such a board is as much necessary for the purposes of foreign trade. It would be dangerous to permit the formation of trade combinations such as I have described except under state supervision. Such supervision could best be provided by such a board.

All of which, with the accompanying report concerning sugar, is respectfully submitted.

W. F. O'CONNOR,
Acting Commissioner re Cost of Living.

SUGAR.

To Hon T. W. Crothers,
Minister of Labour,
Ottawa.

Ottawa, May 18, 1917.

I now respectfully report concerning my recent investigation into the cost and selling prices of sugar. Such investigation covered all the Canadian refineries of both cane and beet sugar and as well as several hundred wholesale dealers, in all the provinces, as to production, costs, sale prices and method of distribution. While I have discovered no case of overcharging whatsoever, I have to report that, in my opinion, the prevailing system of sale and distribution is technically illegal because based upon periodically fixed resale prices by way of common agreement. Yet I consider such prevailing system to be, under the applicable hereinafter disclosed circumstances, fair and beneficial to the public. In view of the matters stated I am making recommendations for the amelioration of existing laws. I provide ample proofs throughout for all statement of fact and give reasons for all contentions and recommendations.

GENERAL STATISTICS AND THE BEET SUGAR INDUSTRY.

The sugar refining industry of Canada is one of very respectable proportions. The sugar refined during the calendar year of 1916 aggregated 345,089 tons and was of the value of $47,473,114. The tonnage of 1915 was 303,233, of 1914 was 332,512, and of 1913 was 319,752. There are six refining companies which operate in all eight refineries. Acadia Sugar Refining Company Ltd., operates at Halifax, N.S., Atlantic Sugar Refineries Limited at St. John, N.B., the Canada Sugar Refining Company Limited and St. Lawrence Sugar Refineries Limited at Montreal, Que., Dominion Sugar Company Limited (three refineries) at Wallaceburg, Kitchener, and Chatham, Ont., and the British Columbia Sugar Refining Company, Limited, at Vancouver, B.C.

All of the named companies excepting the Dominion Sugar Refining Company, Limited, refine imported raw cane sugar exclusively. At Kitchener and Chatham that company manufactures beet sugar, and at Wallaceburg it manufactures both beet and cane sugar. Beet sugar can be produced, ordinarily, at a cheaper rate than cane. The Dominion Sugar Company's main purpose has been the manufacture of the first mentioned product, but, during 1916, of a total production by it of 101,000,000 pounds of refined sugar, only 19,000,000 pounds were from beets. The balance was made out of imported raw cane sugar. Owing to continuously wet weather, the beet crop of 1916 proved practically a failure.

The Dominion Company sells most of its product direct to manufacturers and retailers. As a rule its prices run lower than those of the other refineries by 10 or 15 cents per hundred pounds. The buying public seemingly has not the same confidence in the beet product as in the cane. The Company sells most of its product in moderate quantities to retailers. It numbers only a few wholesalers, comparatively, among its customers. It sells through resident agents and its own commercial travellers. The beet product enjoys the benefit of the maximum customs duty of about $1.37 per 100 pounds, imposed on raw cane sugar, so that it can be and is sold at a substantial profit. There is not any reason known to me why the average cost of its production for the year 1916, which was 5½ cents per pound, should be materially higher during 1917, so that considering the ruling wholesale prices for refined cane sugar (caused in the main by the duty and the greatly enhanced cost of the raw product and the known shortage of the cane crop) the Company, so far as its beet sugar is concerned, is not

only now earning substantial profits, but is in a fair way to continue doing so. Dealing, as it does, with some thousands of retailers direct, it has at all times at precarious risk a very large capital investment. For the same reason its distribution system is, in my judgment, of a more expensive character than that of the other refining companies. Under the circumstances, therefore, I am not prepared to pronounce its present profits upon beet sugar unreasonable, which its profits on cane sugar certainly are not. The company sells its sugar at a price delivered. The cane sugar refiners do likewise, according to an equalized freight system to which I shall refer at length, and, because the prices quoted by the cane sugar refiners fluctuate with the New York price for cane raw, and the prices for refined beet sugar ordinarily maintain a relation to the prices for refined cane sugar, I think it fair to conclude that the Dominion Sugar Company's system of delivering sugar and its charges for delivery (included in the delivery prices quoted) are upon practically the same basis.

The refiners other than the Dominion Company deal mainly with wholesale grocers and manufacturers.

The Cuban crop of raw cane sugar controls the sugar situation in Canada. Some figures of Cuban production follow:—

	Long tons.
1913-14	2,597,732
1914-15	2,592,667
1915-16	3,007,915
1916-17	2,600,000

Following is a statement of the world's sugar crop for equivalent year:—

	Long tons.
1913-14	18,740,212
1914-15	18,468,401
1915-16	16,592,158
1916-17 (estimated)	16,000,000

REFINING COSTS.

It is not easy to arrive at refinery cost of production. None of the refineries keep any separate cost accounts covering individual classes of sugar, but they all average their general manufacturing, selling, and delivery costs upon a 100-pound basis. This makes it possible to obtain a relative idea as to particular costs. It is comparatively useless to attempt to estimate costs as of any particular time or covering any particular week or month, because many causes operate to compel the refiner, at times, for longer or shorter periods, to sell at a loss. Occasionally a loss will be the result of a full year's operations. One refinery operated last year at a very serious loss, and another barely earned the interest on its bonded indebtedness. This latter refinery had averaged a profit of about 4 cents per 100 pounds on its products, or about two-thirds of 1 per cent on its turn-over. A test made this week, based upon replacement value of raw sugar, may show that the refineries are operating at a large per diem loss. A change in sugar values, followed by a test next week, may reverse the conditions and show seemingly undue profit. The only fair course in dealing with an industry such as this is to consider the operations of a whole business year. The refineries are absolutely dominated, as concern prices, by the cost of raw cane sugar. Their prices go up and down with the cost of the raw product as quoted in New York. It is practically impossible to arrive at the true manufacturing cost of particular grades of refined sugar. The best that can be done is to approximate general costs for short periods and to reach an average. All the grades are different results of the same processes. Yellow sugar results at one stage of the processes necessary to produce granulated sugar. Fancy sugars result from carrying the processes of manufacture past those necessary to produce granulated. Some refineries produce over 90 per cent of granulated and over 5 per cent of yellow sugar. Fancy sugar are an almost negligible proportion.

To apportion with exactitude the cost incident to the production of each class of sugar would involve such close consideration of labour hours, steam consumption, filtration cost, evaporation value, etc., for each grade that the value of the result attained would not justify the expense necessary to attain it. Besides, conditions produce remarkable fluctuations in the actual cost of specific products, while general refinery costs remain comparatively uniform. There has been an undoubted increase in the factory costs of producing refined sugar since the beginning of the war. Prominent among these costs have been: (1) the unstable condition of the labour market, (2) the erratic supply of raw sugar and accessory material such as coal, chemicals, packages, etc., (3) the general increase in the cost of raw sugar and accessory materials.

Owing to the necessity for accepting at times less efficient labour than was formerly obtainable a given operation may take longer to complete. Occasionally the necessary labour is not obtainable at all. Under these circumstances factory costs will for a time approach the abnormal. The expense incident to the receiving and instructing of new help and the losses incident to performance by the unskilled as compared with the cost of the smooth-running operations of other times need only be mentioned to be appreciated.

In twenty months, coal such as is used by the refineries has more than doubled in price. If we go back to the ante-bellum period it has increased from $3.25 per gross ton delivered at the boilers of the refinery in 1914, to $8.50, an advance of over 250 per cent. Besides, the presently obtainable coal is of poorer quality for refinery purposes than that formerly obtainable. Sulphuric acid, the most economical for every purpose of a sugar refinery, cannot now be obtained, and hydrochloric acid is being used instead at an advance in cost of over 300 per cent. Bags and packages have advanced in cost in like proportion. These advances in manufacturing costs have been gradual. They have contributed their share to produce higher prices for sugar, but the most potent cause has been the advance in the cost of the raw product. That product has more than doubled in cost since the beginning of the war. It has advanced from $2.25 to $5.30 per 100 pounds or over 140 per cent. Nor must it be forgotten that in August, 1914, the duty on raw cane sugar was increased about 75 cents per 100 pounds, or from 40¾ cents to $1.03¾ for 96° preferential sugar, and from 57½ cents to $1.37¾ for 96° non-preferential sugar. A large proportion of the raw sugar obtainable in 1916 was non-preferential. High freight rates, too, have contributed to enhanced sugar prices. Cuba freights before the war were 9 cents per 100 pounds. They are now 76 cents. War risk costs from 1 per cent to 2 per cent. New York freights run from 13 to 15 cents per 100 pounds.

As I have said, the refineries are dominated always by the raw sugar market. Whether that goes up or down they follow it. When caught with a large stock on hand in case of a drop in sugar values they may experience severe losses which they must recoup out of the general earnings of their business.

A test of the cost of granulated sugar made by an Eastern refinery on February 8, 1917, showed the following costs per 100 pounds:—

Cost of raw sugar, duty, etc., paid..	5·81
Overhead and other manufacturing charges...	1·0323
Other charges..	·4390
Total cost of refined sugar..	7·2813
Refinery's average selling price net for refined sugar on the same day..	6·81
Operations showing loss of..	·4713 or 47·13 cents per 100 pounds on raw.

A test of another refinery made about the same time showed a total cost to the refinery of 7·35. This refinery's average selling price net for refined sugar on the same date was 6·95. The operations of the refinery were thus showing for the time being a loss of 40 cents per 100 pounds.

Another test made near the end of January by yet another refinery showed a cost of 7.59 for granulated and a net average selling price on the same date of 7·79. The cost mentioned was made up as follows:—

Average cost of stock of raw sugar from which granulated was produced..	6·1950
Loss converting 100 pounds of raw into 100 pounds refined.. ..	·4026
Cost of packages..	·2770
Cost of refining, including all overhead charges, etc..	·6200
Cost of delivery..	·0250
Depreciation of buildings, plant and machinery..	·0750
Total..	7·5946

Yet another test made during the progress of the investigation showed the production of granulated sugar at a cost of 7·10 for the time being, when the selling price was averaging 7·25 per 100 pounds. The cost of raw cane sugar, which went to make up the total cost was at the time \$4.75 at New York. The balance of cost was made up of freight and insurance to the refinery, duty, manufacturing, selling, etc. Shortly after the test was made the cost of raw sugar fell 75 cents per 100 pounds at New York. The refinery thereupon reduced the price of its refined product, the cost of which at the time of the test showed \$7.10. This was the actual cost of the actual granulated sugar, as worked out upon the average cost of the raw product from which it was made. The new selling price fixed by the refinery was \$6.50 per 100 pounds. This operation would show an actual loss of 60 cents per 100 pounds for so long as the price of \$6.50 was maintained.

Of course the refineries make profits from their purchases of sugar, as occasionally they make losses. For instance, the operation might have been the other way. If in the case just mentioned the raw had advanced 75 cents instead of falling that amount, the refinery would make a substantial profit on granulated. It would unquestionably have advanced its granulated commensurate with the advance in the cost of raw sugar. Profits are made by the refineries on rare occasions in another way. Having agreed to buy a large quantity and having no immediate necessity to manufacture it, if the price advances it may resell its purchase, or a portion thereof, at a profit.

The main elements of cost are: (1) the cost of the raw product and freight thereon, (2) customs duties payable, (3) manufacturing and selling costs of the refined article.

As mentioned, the cost of the raw product is variable, and, from the Canadian standpoint, uncontrollable. Customs duties and manufacturing and selling costs are much less variable. The average cost of raw cane sugar, duty, freight and insurance paid within Canada, for the year 1916, was about \$6.07. The manufacturing and selling costs of the various refineries, including the discounts allowed to wholesalers as their remuneration for distributing the product, average about \$1.40. During 1916 the average cost to the refiners of production, at the refinery, was for beet sugar 5½ cents per pound, and for cane sugar 6⅝ cents per pound. The average selling prices, net, were respectively 6¾ cents per pound and 7 cents per pound. The average of the "list" prices, which are subject to 30 cents discount to wholesalers, was \$7.28 per 100 pounds. From this \$7.28 deduct 30 cents for wholesalers' discount and 10 cents for absorbed freight charges to the refineries' vendees (see references to this absorption later on herein under the heading Equalized Rates) and the normal net realization of the refineries of cane sugar is found to have been \$6.88 per 100 pounds against a normal cost of about \$6.67, or a profit of about 21 cents per 100 pounds, or one-fifth of a cent per pound, or say 2⅝ per cent on the business done. Such profits are surely reasonable. I have included in the computation made only those refineries which earned dividends on their stock during 1916. Two of Canada's six sugar companies did not earn dividends in that year. Now, note this: The average cost of raw cane sugar during 1916 was \$6.07. Add to this as cost of manufacture and freight absorp-

tion, $1.10. The average cost of production on a raw sugar replacement cost basis would be $7.17. The net average selling price was $6.98. It follows that the refineries sold at times otherwise than on a replacement cost basis, giving the advantage to the consumer.

A similar condition has obtained very recently, and obtains as I write. Note the following:—

January, 1917—	
Average cost of raw, duty, etc., paid..	$5 80
Manufacturing and selling costs, etc..	1 40
	$7 20
Average list price for month for refined sugar..	$7 35
February, 1917—	
Average cost of raw, etc..	$5 85
Manufacturing, etc..	1 40
	$7 25
Average list price, etc..	$7 32½
March, 1917—	
Average cost of raw, etc..	$6 30
Manufacturing, etc..	1 40
	$7 70
Average list price, etc..	$7 60
April, 1917—	
Average cost of raw, etc..	$6 85
Manufacturing, etc..	1 40
	$8 25
Average list price, etc..	$8 02½

These averages, of course, are rough guides only, as to amounts of profits or losses. The volume sold at a particular time is the essential consideration so far as profits are concerned. But they indicate at least the cause of the increase in sugar prices. It is the rise in the cost of the raw product.

It can hardly be said that the business of refining sugar is, on the whole, an exceptionally profitable one. Of the six refining companies within Canada, two failed to show a profit on the operations of 1916, and one of these two operated at a very substantial loss. The other barely earned the interest on its bonded indebtedness. The latter mentioned company's net earnings were about 4 cents per 100 pounds.

THE EQUALIZED RATES SYSTEM.

The refineries sell sugar to the wholesale trade, and the latter distribute it among the retailers, according to an equalized freight rate system, so called. This system is of such an intricate character that its operations are not well understood even by those who have operated under it for many years. It is based upon existing railway freight rates but makes wide departures therefrom. Its primary design is to avoid as far as possible wide variations in freight charges for delivery at contiguous places, and to avoid as far as possible the advantages which low railway freight rates and favourable geographical location afford to wholesale houses in the larger centres of population. It decreases the amount of localization of available sales territory which the ordinary railway freight rates and other causes produce.

The equalized freight rate system as applied within Canada to the distribution of sugar has been in operation for about nineteen years. Before the introduction of the system the sugar trade had become much demoralized. It was impossible for retailers in the smaller towns and villages throughout the country to compete with the merchants in larger places, favoured, as these latter were, by the ordinary freight rates. Many were selling sugar at a serious loss. There was universal complaint against unhealthy business conditions. Many months of study were devoted to the problem of equalizing the cost to retailers. A plan was evolved and submitted to the refiners in 1898. The submitted plan, which, after lengthy discussions, was finally accepted, was one which aimed to equalize as much as possible delivery costs and to enable the wholesalers in the different centres to compete with each other at outside points within the natural geographical territory common to the wholesaler in either competing point. To make the arrangements practicable the refineries had to agree to deliver sugar freight prepaid from a basic point (which for Ontario and Quebec was made Montreal) to the competing centres, at less than the actual rates of freight paid and absorb the difference themselves, adding it to the general cost of sugar. Arbitrary rates were fixed for the competing points, so called, meaning the places whereat, in 1898, when the system was adopted, there were wholesale grocers engaged in business. These arbitrary rates maintain their relation to the actual freight rates as the latter from time to time change. They are generally lower than the actual railway rates, but the refineries, additionally, allow a freight rebate upon a sliding scale, which results in the sugar freight rates to the competing point being very low.

The system was brought into operation in all the provinces. An exposition of its application to one province, Ontario for instance, will serve towards an understanding of its application in all thereof.

The favoured "competing points" adopted in the beginning are considered such yet. There has been neither adding nor taking away. In Ontario these were and are: Kingston, Ottawa, Belleville, Napanee, Brockville, Peterborough, Lindsay, Toronto, Hamilton, London, Brantford, Guelph, Berlin (Kitchener), Stratford, Sarnia, Windsor, Owen Sound, Collingwood, St. Catherines, Port Arthur, North Bay, and Sault St. Marie.

For a start the equalized rates for carlots to non-competing points were made higher in most cases than the actual freight rates. The intention was to recompense the refiners for the absorption of much of the freight to the competing points. For some years past, however, the equalized rates to non-competing points have been reduced so that to-day they do not in any case exceed, and, it is claimed, in 85 per cent of the cases are lower, than the actual rates of freight, while the refiners still continue to absorb a great part of the freight, and in some cases the whole of the freight to competing points. The absorption amounts to about 10 cents per hundred pounds in freight and cartage charges. There was nothing in the nature of philanthropy about the operation on the part of any concerned. The wholesalers in many sections had been doing business at a loss; the business of distributing was in a state approximating chaos; the refineries were anxious to secure stability and uniformity. They were particularly anxious to deal exclusively with wholesalers. All these purposes they achieved by making the arrangement mentioned and adding 10 cents per hundred pounds to their general costs of producing sugar. Thus came into operation the equalized rates system. It has proven a good arrangement all round.

Before I can indicate the *modus operandi of the* equalized rates system, I have to deal with the matter of cartage, which is an important element in the cost of the distribution of sugar. It represents not infrequently an amount equivalent to 40 or 50 per cent of the freight charges upon a sugar shipment and it is always a serious item in the net cost to the wholesaler, who must (whether he is recouped or not) pay it twice—into and out of his warehouse on every pound of his sales except by car-

lot. Sometimes he pays three cartages. The present rates per hundred pounds in the following places are:—

Montreal,	for carlots,	4	cents, and	for less than carlots,	4½	cents.
Toronto,	"	3¼	"	"	4	"
Brantford,	"	3	"	"	3½	"
Hamilton,	"	3	"	"	3½	"
Sarnia,	"	3	"	"	3½	"
St. Catherines,	"	3	"	"	3½	"
Ottawa,	"	3	"	"	3½	
Kingston,	"	3	"	"	3½	"
London,	"	3	"	"	3½	"
Guelph,	"	3	"	"	3½	"
Windsor,	"	3	"	"	3½	"
Chatham,	"	3	"	"	3½	"
Cornwall,	"	3	"	"	3½	"
St. Thomas,	"	3	"	"	3½	"

Prior to 1898 it had been most usual for a retail grocer of Barrie, for instance, to buy from his nearest competing point, which was Toronto. Taking the railway rates prior to 1898, for the purposes of illustration, to be the same as those of now, the wholesale house in Toronto paid 16 cents per 100 pounds freight on car-lots. Taking the cartage rates of then as the same as those of now, the wholesaler paid 3¼ cents per 100 pounds to his warehouse or storage. Also 4 cents cartage out from his warehouse when delivering at railway on resale. The buyer at Barrie would thus have to pay the price of the sugar at the station of the place of the refinery, freight from the refinery to Toronto 16 cents, two cartages aggregating 7¼ cents, freight from Toronto to Barrie on less than carlots 16 cents or in all 39¼ cents per 100 pounds for freight and cartage on sugar delivered in railway yard at Barrie. Under the equalized rate system the Barrie purchase would work out in the following manner—the equalized rate to Barrie (to be found on consultation of the Ontario Equalized Rate Book) is 32 cents. The railway rate from Montreal less than carlots is 31 cents, add 4½ cents for cartage at Montreal (which under the former system was payable) and we get 35½ cents of a cost at Barrie, buying direct from refinery, as against 32 cents of a cost at Barrie, under the equalized rate system. But under the equalized rate system no account is taken of tare which often runs to 7 per cent of the freight. If to the 35½ cents just estimated there were added even 3½ per cent of 31 cents for tare, or 1 cent, the cost direct from the refinery would be 36½ cents, as against 32 cents under the equalized rate system purchasing through the wholesaler.

The refineries sell to the wholesalers in carlots only and, invariably, rebate to the wholesale buyer, according to a sliding scale, portion of the equalized rate of freight. The Ontario rebate scale is as follows:—

	Cents.
On equalized rates of 17 cents per 100 pounds and under..	5
" " 18 to 22 cents per 100 pounds and under..	6
" " 21 22 " 100 " "	7
" " 23 24 " 100 " "	8
" " 25 30 " 100 " "	10
" " 31 and upwards per 100 pounds and under..	12

After the preceding application of the operation of the system to one case, the town of Barrie, its application to a number will be better understood. The following examples consist of four series of three places each within the province of Ontario, each series being selected from a different section of the province. Note that in all cases the equalized rate runs lower than the less than carlot freight direct from the refineries at Montreal to retail buyers' location. In all cases tare is disregarded. If regarded it would accentuate the favourable conditions as respects the equalized rates.

Town.	L. C. L. equalized rate as shown in Sugar Rate Book.	Present railway rates direct from Refineries at Montreal.		Cost under former system (based on present railway rates) of service equivalent to that furnished under equalized rates system.		Choice of possible competing points. The most advantageous point is put first.	Details of cost under former system, at present rates of services equivalent to those now provided. Railway rate to competing point, two cartages, and railway rate to retailer's railway station.	Actual freight and cartage cost to wholesaler, consisting of equalized rates in book to his competing point, minus carlot freight rebate, plus cartage from his warehouse to his railway station, plus local freight to retailer's railway station.		Equalized Rate charged Retailer per "Sugar Book."	Profit of Wholesaler on freight L.C.L. to retailer.	Present railway rate from Montreal to retailer.	Present Ry. Rate plus cartage formerly payable.	Equalized rate (freight and cartage) charged by wholesaler to retailer, being L. C. L. Eq. rate minus freight rebate. Rebates charge same amount to wholesaler.
								Less than Carlot Sales.				Carlot Sales.		
		L.C.L.	C. L.	From Refinery cartage, Montreal, and railway freight.	From wholesaler see 2 columns to the right.			Items.	Total.					
Barrie	32	31	19	35½	39¼	*Toronto*	16 + 3¼ + 4 + 16	13 − 5 + 4 + 16	28	32	4	19	23	20 (32 − 12)
					41½	Hamilton	17 + 3 + 3½ + 18	14 − 5 + 3½ + 18	30½	32	1½			
					48½	London	19 + 3 + 3½ + 23	17 − 5 + 3½ + 23	38½	32				
					44½	Brantford	18 + 3 + 3½ + 20	16 − 5 + 3½ + 20	34½	32				
					40¼	Collingwood	20 + 3¼ + 4 + 13	20 − 6 + 4 + 13	31	32	1			
Gravenhurst	35	31	19	35½	43¼	*Toronto*	16 + 3¼ + 4 + 20	13 − 5 + 4 + 20	32	35.	3	19	23	(*) 20 (35 − 15)
					44½	Hamilton	17 + 3 + 3½ + 21	14 − 5 + 3½ + 21	33½	35	1½			
					49½	London	19 + 3 + 3½ + 24	17 − 5 + 3½ + 24	39½	35				
					45¼	Collingwood	20 + 3¼ + 4 + 18	20 − 6 + 4 + 18	36	35				
Midland	36	33	20	37½	42¼	*Collingwood*	20 + 3¼ + 4 + 15	20 − 6 + 4 + 15	33	36	3	20	24	24 (36 − 12)
					43¼	Toronto	16 + 3¼ + 4 + 20	13 − 5 + 4 + 20	32	36	4			
					44½	Hamilton	17 + 3 + 3½ + 21	14 − 5 + 3½ + 21	33½	36	2½			
					49½	London	19 + 3 + 3½ + 24	17 − 5 + 3½ + 24	39½	36				
*St. Thomas	28	35	19	39½	37	*London*	19 + 3 + 3½ + 8 + 3½	17 − 5 + 3½ + 8 + 3½	27	28	1	19	26	18 (28 − 10)
					46¾	Toronto	16 + 3¼ + 4 + 20 + 3½	13 − 5 + 4 + 20 + 3½	35½	28				
					46	Hamilton	17 + 3 + 3½ + 19 + 3½	14 − 5 + 3½ + 19 + 3½	35	28				
					43	Brantford	18 + 3 + 3½ + 15 + 3½	16 − 5 + 3½ + 15 + 3½	33	28				

Columns 2–8: Comparison of Cost of Distribution of Sugar Under Former System with that Prevailing Under Equalized Rates System. Columns 9–15: Comparison of what Wholesaler Pays Under Equalized Rate System with what He Derives Under it.

Ridgetown	35	38	20	42½	40½	*London*	19+3 +3½+15	17−5 +3½+15	30½	35	4½	20	24	23 (35 12)
					44½	Hamilton	17+3 +3½+21	14 5 +3½+21	33½	35	1½			
					45½	Brantford	18+3 +3½+21	16−5 +3½+21	35½	35				
					44½	Sarnia	20+3 +3½+18	19 6 +3½+18	34½	35	½			
					42½	Windsor	20+3 +3½+16	19 6 +3½+16	32½	35	2½			
Simcoe	31	34	19	38½	37½	*Hamilton*	17+3 +3½+14	14−5 +3½+14	26½	31	4½	19	23	19 (31 12)
					42¼	Toronto	16+3¼+4 +19	13 5 +4 +19	31	31				
					41½	London	19+3 +3½+16	17−5 +3½+16	31½	31				
					38½	Brantford	18+3 +3½+14	16−5 +3½+14	28½	31	2½			
Beamsville	27	31	18	35½	33½	*Hamilton*	17+3 +3½+10	14 5 +3½+10	22½	27	4½	18	22	17 (27 10)
					38¼	Toronto	16+3¼+4 +15	13 5 +4 +15	28	27				
					44½	London	19+3 +3½+19	17−5 +3½+19	34½	27				
					38½	Brantford	18+3 +3½+14	16−5 +3½+14	28¾	27				
Welland	30	31	19	35½	36½	*Hamilton*	17+3 +3½+13	14 5 +3½+13	25½	30	4½	19	23	20 (30 10)
					41¼	Toronto	16+3¼+4 +18	13−5 +4 +18	30	30				
					45½	London	19+3 +3½+20	17−5 +3½+20	35½	30				
					39½	Brantford	18+3 +3½+15	16 5 +3½+15	29½	30	½			
Smithville	27	31	18	35½	33½	*Hamilton*	17+3 +3½+10	14 5 +3½+10	22½	27	4½	18	22	17 (27 10)
					37¼	Toronto	16+3¼+4 +14	13−5 +4 +14	27	27				
Brighton	26	26	15	30½	30½	*Belleville*	14+3 +3½+10	13 5 +3½+10	21½	26	4½	15	19	16 (26 10)
					34½	Napanee	14+3 +3½+14	23 8 +3½+14	32½	26				
					33½	Brockville	12+3 +3½+15	13 5 +3½+15	26½	26				
Oshawa	29	29	16	33½	39¾	*Toronto*	16+3¼+4 +13+3½	13 5 +4 +13+3½	28½	29	½	16	23	19 (29 10)
					40	Peterboro	15+3 +3½+15+3½	16−5 +3¼+15+3½	33	29				
Port Hope	30	28	15	32½	34½	*Belleville*	14+3 +3½+14	13 5 +3½+14	25½	30	4½	15	19	(*) 16 (30 14)
					38½	Napanee	14+3 +3½+18	23 8 +3½+18	36½	30				
					35½	Peterboro	16+3 +3½+13	16−5 +3½+13	27½	30	2½			
					36¼	Toronto	13+3¼+4 +16	13 5 +4 +16	28	30	2			

St. Thomas and Oshawa are "Jobbing Points," and sugar is delivered cartage free into retailer's store. (*) Special Carlot Rates for Gravenhurst and Port Hope.

Other comparisons of the equalized rates with the ordinary freight rates from Montreal for carlots, follow:—

	Equalized.	Freight.		Equalized.	Freight.
St. John..	..	18	Lindsay..	14	17
Halifax..	..	19	Guelph..	12	18
Quebec..	..	14	St. Catharines..	13	18
Ottawa	8	12	Woodstock..	20	19
Belleville..	8	14	Sarnia	13	20
Picton..	14	19	Sudbury..	30	29
Toronto..	8	16	Sherbrooke..	12	14
Hamilton..	9	17	Lennoxville..	12	14
Brantford..	11	18	Kingston..	8	13
London	12	19	Peterborough	11	15
North Bay	23	24	Kitchener..	11	18
St. Thomas..	18	19	Niagara Falls..	19	19
Levis..	..	14	Stratford...	13	19
Three Rivers	13	13	Windsor..	13	20
Brockville	8	12	Port Arthur..	36	42

Points marked 0 indicate all freight absorbed by refinery.

The above rates are for carlots and are all charged on the net weight, but as the freight is payable on the gross weight, the tare of the packages must be taken into consideration. This varies from 1 per cent on bags to 25 per cent on a 25-pound box, so that this item adds considerable to the absorption by the refineries.

The system applies in the Maritime Provinces along the same lines. See the following comparisons of carlot rates, and note from the following and previously furnished examples of its operation that the system not only provides against the retailer being charged more for freight than if he paid the freight and cartage himself to the railway, but that under it the wholesalers and retailers at competing points get their sugar at less than if they paid the actual railway charge for freight themselves:—

EXAMPLES.

Examples— St. John to—	Cost of Living Rate.	Equalized Rate.
St. John..	....	
Montreal..	18	
Halifax..	15	
Fredericton..	14	5
Quebec..	17	
Ottawa..	23	7
Toronto..	26	7
Hamilton...	27	8
London..	29	11

The Quebec freight rebate on carlot purchases is as follows:—

On equalized rates 25 and under, rebate 6 cents per 100 pounds.
" " 26 to 29, rebate 8 cents per 100 pounds.
" " 30 to 39, rebate 9 cents per 100 pounds.
" " 40 and upwards, rebate 10 cents per 100 pounds.

In the Maritime Provinces the freight rebate is 5 cents per 100 pounds flat.

The refineries sell in the West freight prepaid. Their prices at various points are of their own making and vary with the railway rate but not precisely following that rate. They have their own equalized rate, in effect, applied by the refineries and shown by the refineries' price lists. Of necessity, the wholesalers have to observe the prices so set as the sugar prices at particular places, thus one wholesaler reports: "In selling at above prices we have to deduct any difference there may be between freight from Calgary to destination, or from nearest competitive shipping point to our customer."

In all the provinces the equalized rates to "competing points" are arbitrary, but to other than "competing points" as shown in the various Equalized Rates books, copies of which I produce herewith, they are made up by computing:—

(a) The arbitrary equalized freight rate from Montreal to the competing point, plus

(b) cartage from the wholesaler's warehouse to the wholesaler's railway station, plus

(c) The local freight rate from the wholesaler's railway station to the railway station of the retailer. The present figures were framed before the recent advance in cartage rates. The equalized rate for Barrie, for instance, is 32 cents, and was made up of Montreal-Toronto equalized rate 13 cents plus cartage at Toronto 3 cents, plus actual L.C.L. freight rate Toronto to Barrie, 16 cents; total, 32 cents.

Ordinarily the out-of-town buyer of sugar, whether from refiner or wholesaler, pays his own cartage from his own station to his own warehouse, but, by mutual arrangement, all sugar sold at "jobbing points," which within Ontario consist of the twenty-two mentioned "computing points" plus Smiths Falls, Pembroke, Picton, Lindsay, Oshawa, Niagara Falls, North Bay, Sudbury, and St. Thomas, are delivered cartage free into the buyers' warehouses.

When the arrangement was made with the refiners in 1898 they were asked, and they agreed, to sell in carlots only and with cartage from refinery to station and freight to destination prepaid, charging the wholesaler buyer on the basis of the price at the refinery plus the equalized rate to destination, as shewn in the equalized rate book, but rebating freight on such carlots as already indicated.

The equalized rates, as shewn in the rate book, apply to less than carlots. As already indicated they are made up of the total expense per 100 pounds to the wholesaler of laying down less than a carlot of sugar at a given point, that expense being calculated excluding cartage from wholesaler's station to wholesaler's warehouse and excluding wholesaler's rebate of freight as a carlot purchaser, but including cartage from wholesaler's warehouse to wholesaler's station. The wholesaler gets the benefit of the carlot of freight rebate not only in sales within his own city but also on all other L.C.L. sales.

I note one curious result of the system. The wholesale buyer receives his sugar at an exceedingly low freight rate. The carlot rebate to him comes off an already low equalized rate originally fixed upon a carlot basis. This enables him to make a profit off freight when dealing with the retailer. On the other hand the rebate to the retailer carlot purchaser comes off the regular equalized rate which is made up of the equalized carlot rate plus the local less-than-carlot rate from the nearest competing point to the retailer's place of business. The refinery ships carlots direct to purchasers thereof from wholesalers, paying railway carlot rates and charging the wholesaler with the equalized rates minus the carlot rebate. The wholesaler in turn charges the retailer the same rate. Thus on carlot shipments to non-competitive points the refinery is enabled to recoup all freight paid and in some cases to make a profit off the freight. But the refineries no longer charge cartage so that in the end the matter about evens up.

While the equalized rates system, as such, has nothing to do with prices, it cannot be operated with fairness except upon a basic price. Given a basic price and under it every retailer at each given point is able to buy at exactly the same price, delivered, as his competitor in the same place, and every wholesaler wherever located can sell the retailer on equally favourable terms. A St. Thomas wholesaler, for instance, can sell to a Toronto retailer a carlot of sugar as cheaply as can a Toronto wholesaler. If the St. Thomas wholesaler sells L.C.L. in Toronto, he can and must sell at Toronto price. He will make less gross profit than on a sale in St. Thomas, but yet he can sell at some gross profit. The retailer has no inducement to buy from one wholesaler more than

another. All wholesalers can sell carlots at the same price and the same rate of profit. Carlots are delivered direct from the refinery and the retailer is given the benefit of the freight rebate. The system has become accepted as the best and it is the established channel for carrying the article to the consumer. It operates with the least friction and produces the best results. Every retailer gets his L.C.L. sugar purchases at a price at least as cheap as the refiner's current price at the refinery, plus the L.C.L. freight from the refinery to his place of business, so that he has all the advantages of a direct purchase from the refinery, which, by the way, does not desire to sell and does not sell L.C.L.

The adoption of the system entailed the necessity of provision of a uniform code of rules for its application by the salesmen of sugar. These were made up by the wholesale grocers guilds and have been in operation since. They are followed by the trade generally, whether or not guild members. It was arranged between the guilds and the refiners in the beginning that whenever the refiners advanced or reduced their prices they should advise the guild officials who would in turn advise all the wholesale houses and follow the advise with a price-current list giving the refiners' prices. This course is followed. It usually results, but not always, that as one refinery reduces or advances its prices, the others follow suit. The same causes affect all at the same time. The plan of notifying the guild officers was adopted to obviate the necessity on the part of the refiners of wiring all their customers direct. The refiners and the wholesale trade do not claim that the system is perfect, but they do claim that in the last analysis, under it sugar costs the retailer less, and that there are fewer big gaps as to cost laid down amongst retailers. Ordinary freight rates are very inconsistent. The general public has no idea of the basis on which railways fix them. In order to prevent complaints and to appease resentment incident to wide differences in prices in different but adjacent points many manufacturers are forced to deliver their products either freight free or according to arbitrary system of their own, absorbing the freight paid into their general cost of production and delivery.

So far as all the sugar refiners (excepting one company) are concerned, through the acceptance of the system and operation under it with list prices they are enabled to deal entirely with wholesalers who constitute a select and financially well-off class of customers. From the general trade standpoint the sugar trade is given stability and pernicious cutting of prices is avoided. When a fair price is cut no gain results to the general public. It always pays in the end. To the consumer the system means about the same thing as to cost, and trade stability is an advantage to him. I mention that he always pays. Every bankrupt's obligations fall upon him. Every economic loss he must shoulder. The "bad debts," the losses and unearned profits of the manufacturer, the wholesaler and the retailer swell their operating costs. These form the basis upon which their demands of future profits are set. The consumer ultimately pays.

The equalized rates system, therefore, is simply one for arriving at a laid down cost based upon the ruling prices of the refineries at the time of a sale, with the refiners absorbing a considerable portion of the freight. Its object is the delivery to the retailer at as low a rate at least as, assuming that the refinery would sell to him, he could secure delivery direct from the refinery. The system secures it object. It is fair to all concerned, but according to strict law I am of opinion that it is illegal. I shall return to this aspect of the investigation at a later stage of this report.

OPERATION OF THE EQUALIZED RATES SYSTEM.

Since the introduction of the system the refiners and wholesalers have quite generally adhered to it. As new refineries have come into being they have notified the wholesale trade that they were ready to do business under the system then in effect. These notifications have usually been oral. As new wholesalers commenced business they have adopted the conditions as they found them.

The discount terms prevailing up to September, 1915, as between refiners and wholesalers were 5½ per cent off list prices, but in the month and year mentioned these terms were changed to 25 cents per 100 pounds. In June, 1916, a further 5 cents per 100 pounds was allowed as discount for cash. As between refiners and wholesalers the 25 cents per 100 pounds is considered remuneration for distribution, and the 5 cents per 100 pounds discount for cash. These terms prevail all over Canada except in the West of which special mention will be made later on.

The refineries have no agreements as among themselves as to price or limitation of territory, nor have they any formal agreement with the wholesalers as to maintenance of prices. Some sell in carlots to any dealer at list prices, but they do not allow the 25 cents and 5 cents discounts to others than wholesalers. They do not draw any distinction between wholesalers who are members of any wholesalers' guild and wholesalers who are not members of the guild. An exception to the general rule is made with respect to the larger departmental stores to which the refineries sell on their best terms. In the west the Hudson's Bay Company, who are purely retailers, are allowed the British Columbia Company's best terms. The manufacturers too buy from the refineries in all parts of Canada and on advantageous terms.

A summary of the method of sale and distribution in the province of Ontario will sufficiently indicate what is the system prevailing in all of the eastern provinces.

The wholesalers receive price lists from the refineries, and such of them as are members of the guilds are notified also by the secretary of their guild. The refineries advise the various guilds of price changes. The refineries notify the secretaries of the guilds so that they may avoid the trouble of sending out several hundred letters of notification. The guilds have an undertaking with the refineries to assume that burden. The refineries notify direct all of their customers who are not members of the guild. All customers receive in due course the refineries' price lists. The notifications from the guilds are informal—sometimes by telephone or telegraph, and sometimes in writing.

The wholesaler pays cash at 14 days for the full amount of the list price and freight. The refinery prepays the full railway freight rate by its charge to the wholesaler is made up of the list price at the refinery plus the equalized rate shown in the rate book less any proper freight rebate. Two months later the wholesaler receives from the refinery his discount of 25 cents and 5 cents off the refinery list prices.

One refinery has been accustomed to annex to the rebate cheque the following notice: "The attached cheque covers discount on shipment made during (month) 1916 and its acceptance is an acknowledgment that the rules governing the sale of our sugars have been strictly observed." This, if needed, clearly indicates fixing by way of agreement, in other words combination.

The rules referred to are the rules set forth in the equalized rate book. One of these rules is that "the lowest selling price for sugar to all points mentioned in this pamphlet and for towns receiving sugar at these respective points, shall be the refinery list prices at Montreal, ruling on the day and at the time of sale." This, too, shows combination as to observance of fixed prices.

Further, on October 23, 1916, an official of the Ontario Wholesale Grocers Guild notified the trade that "the practice in the past and the rule decided upon when the equalized rates system was first adopted was that in case of an advance by either of the Montreal refiners the highest price would rule, and in case of a decline the lowest price would rule, when listing sugars in prices current. Owing to some objection to this plan it will in future be necessary to list each refiner's prices separately with the understanding that the trade are at liberty to sell either Lantic, Redpath or St. Lawrence at the lowest figure quoted for either product and the usual difference on Acadia." Until recently the Acadia refineries' list prices on granulated sugar ruled 10 per cent below that of the other refineries.

Another of the equalized rates rules appearing within the rate book of the province of Ontario states that the discount to the jobber allowed by the refinery is "given conditional upon the rules, terms and selling prices as per equalized rates book and current list prices of the refiners being strictly observed in all sales to the trade."

Also, when the present, the 39th, edition of the Ontario Equalized Rates Sugar Book was sent out to the trade in December, 1916, it was accompanied by a circular emanating from the Wholesale Grocers Guild of the province of Ontario whereby the trade was requested to impress upon the commercial travellers "that the discount allowed by the refineries is contingent wholly upon the rules and selling terms being observed."

Following is a memorandum of agreement signed by Maritime Provinces direct buyers of Canadian refined sugars in April, 1901, and yet effective. It is believed to be in substantially the same terms as the sugar agreement signed generally between 1899 and 1901, by guild members in all the provinces:—

> "We the undersigned promise and agree with each other that we will positively see that the code of rules as set forth in the equalized rules book, are strictly observed both in spirit and letter, that we bind ourselves to enforce the penalty of discharge of any of our salesmen who knowingly evade in any way the honourable observance of every condition upon which the sugar agreement is based, and we further agree that we will not engage any man so discharged by any house.
>
> "To provide the means for making an exhaustive investigation of reported breaches, when the evidence will warrant such a course, a committee composed of the president and executive committee of the local exchange and any others that they may deem advisable to associate with them in the district in which the complaint is made, is hereby instructed and empowered to engage the services of any disinterested party or parties for that purpose, any necessary expense incurred for same to be paid out of the Maritime Exchange Fund, and should a prima facie case be established against any traveller or principal, the report of the party or parties appointed to obtain the facts shall be submitted to the committee, whose decision shall be final."

It will be apparent from the foregoing that an agreement unquestionably exists, whether or not it is observed, between the refineries and the wholesalers, embracing at least the members of the guilds for the observance of fixed prices communicated from time to time for the sale of sugar. I have already intimated that I consider the existing system of sale and distribution to be in fact fair. At a later stage I shall have to consider whether, notwithstanding, it is in law illegal.

The wholesalers resell as a general rule at the list prices plus the equalized rate to the place of delivery of the sugar. Most of them allow retailers 1 per cent for cash in ten days. This discount amounts to 7 or 8 cents per 100 pounds. When the wholesaler is selling to an out-of-town buyer he quotes him the list prices with Montreal as the basis, to which he adds for each 100 pounds the equalized rate as shown in the rate book, the buyer paying freight and to have credit on his invoice for the actual amount of freight to be collected by the carriers, said allowance to be the freight from the shipping point to destination.

The products of the Atlantic, Acadia, St. Lawrence and Dominion companies are sold generally throughout Quebec and Ontario, but because the latter company sells largely to retailers many of the observations in this section of this memorandum will not apply to that company.

The Dominion company sells its beet root product about 15 cents per 100 pounds less than the cane product of the other refineries.

Some wholesale firms admit having sold at times below the list prices. Some, not members of the guild, adhere to list prices, while some members of the guild do not so

adhere. Some wholesalers maintain that they "can sell at higher prices if they care to." The refineries insist, however, that wholesalers have not this liberty. Most of the wholesalers maintain that even if they had the liberty, circumstances would prevent. The advanced price would not be paid.

Others express that they "have no agreement with sugar refineries to sell at these prices, although we believe that they expect us to sell at not less than price lists."

Says another wholesaler: "We cannot ask higher prices as the refineries would sell at the best prices to the retailers." This firm says that it has frequently sold at less than list prices after an advance "and no one has found fault with us."

A non-guild member says: "We have as a general rule complied with, and acquiesced in, the suggestion of the refiners that we should not sell below list prices. We understood this was a binding term of the sale of sugar to us." But they understand that they are not bound by the rules of the rate book, which they "took no part in framing, nor ever agreed to accept."

A London firm follows the list only as affecting granulated and yellow. On other lines it makes its own prices. It considers that it is bound only as to minimum selling prices.

About 20 per cent of the Wholesale Grocers of Ontario are not members of any guild. It is likely that the proportion is about the same in the other provinces.

The discount for cash payment, when allowed off carlot purchases, is estimated on the net cost after deducting the full car freight rebate.

In Quebec the competing and jobbing points whereat sugar is delivered into the warehouses of the purchasers from wholesalers, cartage free, at the equalized rate quoted in the rate book, are: Chicoutimi, Drummondville, Hull, Joliette, Levis, Sorel, Quebec, Sherbrooke, Three Rivers.

In the Maritime Provinces the competing points are Amherst, Yarmouth, Pictou, New Glasgow, Truro, Halifax, Sydney, St. John, Fredericton, St. Stephen, Moncton and Chatham, and the jobbing points are the competing points plus Woodstock, N.B., Chatham, N.B., Campbellton, N.B., and Edmunston, N.B.

The refineries at Halifax and St. John do not confine themselves to sales in carlots. Further on all sales of lots of 10 barrels and upwards the wholesalers allow a discount of 5 cents per 100 pounds. The terms of sale as between wholesalers and retailers are 30 days net or 60 days with 5 cents per 100 pounds added to the equalized rate, or 90 days with 10 cents per 100 pounds added to the equalized rate. This is a rather curious mixture of freight rates and interest because of deferred payment. Seemingly the Maritime guild had concluded that they had imposed upon the refinery list price "all that the traffic would bear," so they resorted to the device of charging a higher freight rate to those who were not ready to pay cash within a reasonable time.

Interest must be charged at not less than 6 per cent per annum on all overdue accounts. The local secretaries of the guilds give telegraphic or telephonic advice of changes of price to the wholesale dealers. These advices are followed by mail notifications and price lists from the refiners.

The provisions *re* orders received by travellers and mail orders sent in by customers are the same in the upper provinces.

In the western provinces the prices quoted by the British Columbia Sugar Company are followed by the wholesalers regardless of whence come the sugars which they may have for sale. The list prices issued by the various refineries are regarded as binding minimum prices. But to these prices the wholesalers invariably add 5 cents or more per 100 pounds when quoting less than carlots for resale. When selling carlots they charge refinery list price without any discount. The various refineries have their agents throughout the west who advise the wholesalers of advances and declines.

The various refineries maintain stocks of sugar at such points at Winnipeg, Brandon, Edmonton, Regina, and Revelstoke. They issue local lists through their local representatives. The western guilds do not send out any lists.

The St. Lawrence Company of Montreal maintains a stock at Winnipeg and issues a local list of prices. The Canada Company maintains a stock at Brandon as well as at Winnipeg and issues an equalized rate book for Manitoba, Alberta, and Saskatchewan. All sugars sold from the stock at Brandon are sold on a f.o.b. freight-delivered rate according to the company's own equalized rate system as shown in the rate book, a copy of which is herewith. The British Columbia Company likewise maintains an equalized rate system of delivery from its stocks at Regina and Edmonton. Comparison of the rates set forth in the various rate books of the companies would indicate that either of them closely follows the other. The Canada and the British Columbia companies quote their prices by means of a rate book which includes in one price the sugar and the freight rate. From time to time they notify of changes upwards or downwards in the price. The quotations thus run: 30 per cent above book rate, or 50 per cent below book rate; as the case may be.

Sugars sold in Winnipeg for outside points are bought at the price prevailing at Winnipeg, the buyer paying actual freight to destination. No system of equalized rates operates within Winnipeg or the territorial district which that city naturally commands.

The discount allowed by the refiners to the wholesalers varies somewhat in the different western provinces. In Manitoba east of and including Portage la Prairie the discount is 4 per cent; west of Portage la Prairie it is 5 per cent, and a small extra concession is allowed for cash payment. In Saskatchewan it is 5 per cent or 5½ per cent for cash. In Manitoba some of the refineries allow fourteen days, others twenty-one days. In Alberta the British Columbia Company allows 4½ per cent fourteen days time on purchases out of Revelstoke or Vancouver stock, or 5½ per cent net two days on purchases from Edmonton stock. It allows 6 per cent on demand draft off shipments from Vancouver. In British Columbia the British Columbia Sugar Company has an absolute monopoly. Freight rate conditions do not permit of the entry of any of the other refineries into the province. The company issues weekly price lists for various sections of the province and allows a discount of 5 per cent off of the total sugar purchases of its customers per month. The discount is paid by cheque sixty days after the close of the month in which the sugar was purchased. Payment is due fourteen days after shipment, by draft; 5½ per cent is allowed for cash. On resales wholesalers allow from thirty to forty-five days' credit. The wholesalers sell to the manufacturers, allowing them a special discount of 2 per cent off list prices. In the prices quoted in the British Columbia Company's "coast list" for Victoria the cartage from Vancouver is allowed for.

The British Columbia Company, until early in the present year, had been accustomed to require from certain of its buyers, as a preliminary to the payment of discount from list prices, signature and return of the document of which a copy is now produced:—

"1st day of December, 1916.

"To the British Columbia Sugar Refining Co., Ltd.,
"Vancouver, B.C.

"GENTLEMEN,—In consideration of your offer to us of a discount of 6 per cent from all purchases made during the month of November last, we certify that from the commencement of the aforesaid month to the present time we have not sold, nor have we permitted any of our travellers or salesmen or agents to sell, nor have any sugars of yours been actually sold in any way at a lower price than the current price of the refinery as made known from day to day, nor on more liberal terms of credit than thirty days net. We further certify

that during the same period we have bought and sold and dealt in sugar of your company's manufacture solely.

"We are therefore entitled in terms of your offer to the above-mentioned concession of 6 per cent, and we hereby make application for same.

"Yours truly,

"........................"

The execution of such a document was, of course, very clear evidence of the existence of an illegal arrangement. The company has now discontinued the requiring of the signature to such documents, and has notified its customers that they are not bound to resell sugars purchased from the refinery at any particular price.

There seems to be real competition for business as between all of the refineries. High freight rates prevent the entry of some of them into some of the provinces, but in all of the provinces except British Columbia there is competition. Besides the home company, the Acadia, three others, the Atlantic, the Canada and the Dominion, sell in Nova Scotia. Besides the home company, the Atlantic, four other companies do business within New Brunswick, the Canada, the St. Lawrence, the Acadia and the Dominion. The latter company alone has more customers within New Brunswick than New Brunswick's home company. In Prince Edward Island, where there is no sugar refinery, four companies compete for the business of the province, the Canada, the St. Lawrence, the Atlantic and the Acadia. All the refineries except the British Columbia compete for business in Quebec, and in this province likewise the outside companies have a greater number of customers than the home companies. The same refineries compete in Ontario as in Quebec. In Manitoba all the refineries of the Dominion are in competition. In Alberta all the refineries except the Atlantic are in competition. In Saskatchewan all of the companies, except the Atlantic, compete. In British Columbia no other refinery but the British Columbia Company is able to sell.

REFINERY PRICES.

Following is a summarization of the course of refinery prices of granulated sugar produced from raw cane sugar for the past eighteen years. The prices given are those ruling from time to time at Montreal. Note the many fluctuations. These in almost every instance will be found to have responded to the ruling market price of raw cane sugar, a condition beyond Canadian control. I annex three charts which will show the course of prices of raw and refined cane sugars in Canada and the United States during 1915 and 1916.

Comparing the fluctuations in the price of raw cane sugar as charted with those of granulated sugar within Canada, it will clearly appear that the prices of refined sugars, in the United States as well as in Canada, are absolutely dominated by the price of raw cane sugar, which neither the United States nor Canada can possibly control.

1899. Minimum, $4.35, running to maximum of $4.65 in September and shading to $4.35 at end of year.

1900. Minimum of $4.40 at beginning of year, shading upwards with slight variations to $5.20 in July and shading to $4.75 in November, and ending at $4.85 in December.

1901. Commencing in January at $4.75, dropping to $4.45 in March, running to $4.60 in June, shading downwards consistently until December, when $3.90 and went to $4 at the end of December.

1902. Commenced at $3.90 in January, shaded down to $3.60 in June, and ran upwards to $3.90 in November, ending at $3.80 in December.

1903. January, $3.80, shading upwards to $4.25 in July, shading downwards to $4 in December, and ending at $3.95 at end of December.

1904. A year of frequent minor changes. January, $4 with practically consistent rise to $5.40 at end of year.

1905. Commencing at $5.45, running upwards to $5.75 during month of January, thence shading gradually downwards to $4.30 at end of year.

1906. $4.20 in January, $4 in February, $4.20 in March, $4 in April, back to $4.20 in June, shaded upwards to $4.40 in September, and ended at $4.30 in December. Minor variations in between prices quoted.
1907. $4.20 in January, shaded upwards to $4.60 in May, and consistently downwards to $4.30 in November.
1908. $4.30 in January, shading upwards to $4.90 in May, shading downwards to $4.40 in December.
1909. $4.40 in January, up to $4.70 in March, $4.60 in May, $4.65 in August, $4.75 in September, $4.65 in October, $4.75 in November.
1910. $4.75 in January, shaded upwards to $5.20 in May and consistently downwards to $4.65 in November and until end of year.
1911. $4.65 in January, shading downwards to $4.25 in February, consistently mounting to $5.90 in September, and shading off to $5.70 in December.
1912. $5.70 in January, shading to $5.40 at end of month, up to $5.60 in February, shading consistently downward to $4.80 in October and until end of year.
1913. Commencing January at $4.80, declining to $4.35 in May, advancing to $4.55 in August and declining again to $4.35 in December.
1914. Commencing in January at $4.35, declining to $4.15 in March, advancing gradually to $4.45 in May, $4.55 in August, advancing gradually to $5.75 before the end of the month; $6.25 in September; $7.05 end of October, declining to $6.75 at the end of the year.
1915. January, opening at $6.30, advancing to $6.80 in February, and declining to $6.05 in September, advancing gradually to $6.65 before the end of year.
1916. January, $6.65, advancing gradually during February and March to $7.45, and during April and May to $8.05, declining gradually during August and September to $7.40, advancing again during October to $7.90 and closing at the end of December at $7.50.
1917. Commencing January, $7.45, declining to $7.25 end of January, and advancing gradually to $7.80 on March 27; $8 on April 5; $8.25 on April 9, and $8.35 to $8.50 on April 17.

Note the sharp advance in price from $4.55 per 100 pounds in August, 1914, to $5.75 in the same month. On August 22 the customs tariff on raw sugar was raised from 40¾ cents to $1.03¾ for 96 degree preferential, and from 57½ cents to $1.37¾ for 96 degree non-preferential sugars. This customs "war tax" as it is called by the refiners, accounts in part for the increased price. It ought to be mentioned to the credit of Canadian sugar refining companies that upon the outbreak of the war, notwithstanding a great increase in the cost of the raw product, the refiners in consideration of the conditions of the time departed from their previous invariable course of following the raw sugar market, and, except for the absorption of the newly added customs "war tax" into the prices of refined sugars, continued to sell at practically *ante bellum* prices until necessary replenishment of their stocks of raw sugar forced them to raise their prices sufficiently to cover the replacement cost. In the meantime very much higher prices for refined sugars were prevailing in the United States. It has been computed that this considerate action on the part of the refineries meant a sacrifice of profits on their part, and a saving to the Canadian consumer, of about $1,500,000.

The highest list price for granulated sugar during 1915 at Montreal was $6.75, the lowest $6 per 100 pounds. The average net price realized by the refineries was about $6.15. The equivalent figures for 1916 were $8.15, $6.60 and $7.28.

The highest list price for granulated sugar during 1915 at New York was $6.15, the lowest $4.80, and the average net price realized by the refineries about $5.56. The equivalent figures for 1916 were $7.65, $5.75 and $6.86.

The following changes in price have been made since November 10, 1916, wholesale price per 100 pounds in the rebate of 30 cents:—

From $7.85	November 10	to $7.65	December	13.
"	"	7.55	"	19.
"	"	7.45	"	29.
"	"	7.35	January	20.
"	"	7.25	"	27.
"	"	7.40	February	14.
"	"	7.60	March	23.
"	"	7.80	"	27.
"	"	8.00	April	5.
"	"	8.25	"	9.
"	"	8.35 to 8.50	"	17.

The recent advances in price have been necessitated by sharp advances in the cost of raw sugar, due to a shortage in the Cuban crop produced mainly by destruction of the cane during the recent short-lived Cuban revolution. The original 3,500,000-ton estimate for Cuba has been reduced to 2,600,000 tons.

All the prices previously quoted have been those ruling at Montreal and applicable in Quebec and Ontario with the equalized freight rate added.

In the Maritime Provinces the list price of Atlantic granulated, as well as all other sugars, has generally ruled the same as in Ontario and Quebec. The Acadia Company, whose price for a long time for granulated ruled in Quebec and Ontario at 10 cents under that of the other refineries, has always charged within the Maritime Provinces the same price for granulated as the other refineries. Recently the Acadia refinery's prices have been advanced in Ontario and Quebec to the level of those of the other refineries.

For purposes of comparison I set forth some recently prevailing list prices in Western Canada. Prices are ruling higher now in precisely the same ratio as Central Canada prices have increased since equivalent dates. The increase is entirely due to the increased cost of the raw product, in its turn due to the shortage of the raw product. Cuban conditions control throughout North America because its proportion of the total product of raw is so great

1916.		Place.	Granulated.	Yellow.	Montreal prices same date.	
December	19.	Winnipeg..	8.40	8.00	7.65	7.25
"	19.	Brandon	8.50	8.10		
"	19.	Edmonton	8.95	8.55		
"	19.	Camrose	8.82	8.42		
"	19.	Regina..	8.47	8.07		
1917.						
January	27.	Winnipeg	8.00	7.60	7.25	6.85
February	14.	"	8.15	7.75	7.40	7.00

As prices change they maintain the same differentials. Brandon, for instance, will rule 10 cents over Winnipeg and Winnipeg 75 cents over Montreal.

In British Columbia the British Columbia Company issues a weekly "Coast Price List." It is divided into four sections: (1) Vancouver-Victoria section, (2) West Kootenay section, (3) Crowsnest section, (4) Mountain and Kootenay Central section.

On the 20th January, 1917, the ruling prices were 30 cents less than on December 19. Some of the prices prevailing at British Columbia points during January were:—

	Granulated.	Yellow.
Vancouver-Victoria..	$8 30	$7 65
West Kootenay..	8 80	8 15
Crowsnest..	8 80	8 15
Mountain and Kootenay Central section..	8 79	9 01

On February 16 the preceding prices were 20 cents lower, but they were followed by an advance.

A bundle of price lists of the various sugar refineries of various dates is produced herewith.

Uniformity of prices between the several cane sugar refineries does not always rule. On a number of occasions in 1914, after the declaration of war, and since, there were wide variations, as will appear from the following statement:—

1914		Canada.	St. Lawrence.	Atlantic.	Acadia.
August	3..	$4 50	$4 50	....	$4 55
"	11	4 50	5 00	....	5 45
"	21..	5 20	5 70	....	6 15
September	11..	5 70	6 20	....	6 15
"	14..	5 70	6 20	....	6 65
October	10..	6 70	6 70	....	6 65
"	19..	6 70	6 70	....	7 15
"	[illegible]..	7 00	7 00	....	6 95
November	[illegible]..	7 00	7 00	....	6 65
December	10..	6 70	6 70	....	6 45
1915.					
November	[illegible]..	6 20	6 25	6 25	6 15
"	[illegible]..	6 50	6 35	6 60	6 40
"	30..	6 50	6 60	6 60	6 40
December	2..	6 50	6 60	6 60	6 50
1916.					
March	3..	6 80	6 80	6 90	6 70
"	23..	7 40	7 40	7 70	7 30
April	21..	7 70	7 70	7 85	7 60
May	22..	8 15	8 15	8 00	8 05
July	29..	7 95	8 15	8 15	8 05
"	30..	7 95	8 15	7 95	8 05
"	31..	7 95	8 15	7 95	7 85
October	20..	7 75	8 00	7 75	7 65
"	21..	7 75	8 00	8 00	7 90
"	26..	7 85	8 00	8 00	7 90
November	9..	7 85	7 85	8 00	7 75
April	17..	8 25	8 50	8 50	8 50
May	3..	8 35	8 50	8 50	8 50

CANADIAN EXPORT OF REFINED SUGAR.

Until 1916 the production of Canadian refineries had been for purely Canadian consumption, but during that year particular conditions enabled the making with the British sugar purchasing commission of contracts for approximately 26,000 long tons of refined sugar, which, although a comparatively small amount when divided, as it was, among three refineries, was nevertheless of material benefit to them. Up to May 10, 1917, further contracts were made by four Canadian refineries with the same commission for 35,000 long tons, or 78,400,000 pounds. This business, which was booked at very satisfactory prices was secured in open competition with the United States refineries. It yielded 5 per cent better than the prices prevailing in the Canadian market on the date of acceptance of the orders.

The capacity of the Canadian refineries is very much in excess of the demand for home consumption. They produce only about 60 per cent of their capacity during any year. They could certainly turn out some 400,000,000 pounds of sugar in excess of their present production, annually. The advantage to them of export business at satisfactory prices is thus apparent. The advantage in reduction of overhead and other expenses, applicable to the benefit of the Canadian consumer, is likewise apparent. But the securing of these export orders has been due in a large measure to chance. It has been the result principally of a curtailment of output in the United States caused by labour troubles, coincident with a heavy local demand there. Under normal conditions the United States refiners have the advantage. They have more favourable freight rates on the raw sugar, and, on account of the enormous production of many of these refineries, they can manufacture at a much lower cost. Even under war conditions, with the competition of all European sugars eliminated, it is impossible for Canadian refiners to compete for English export business except when extraordinary conditions enable. This year, for instance, anticipating the possibility of British export orders, most of the Canadian refiners purchased raw sugars

much in excess of their local requirements. They were subsequently favoured by a rising market and so were enabled, when the opportunity presented itself, to successfully compete. This is highly speculative business, however. The market was judged aright. It might have been otherwise. In that case not only would it have been impossible for the Canadian refineries to compete for export business, but they would have experienced a severe loss. I understand that the British Commission intends to afford to Canadian refiners hereafter an opportunity of fulfilling a portion of the commission's requirements at a price equal to that at which it can purchase at New York. In my judgment this concession will be of little value except in cases where by chance or as the result of dangerous speculation Canadian refineries shall have on hand sufficient raw sugar beyond the requirements for local consumption, and purchased low before a rise in the market, with the commission buying while the market is high. This may well occur, at times during the war, but, when business conditions in Europe return to the normal, it will be out of the question for Canadian refiners to anticipate successful competition with the enormous beet sugar production of Russia, France, Belgium, Germany and Austria, unless, indeed, in the interest of Canadian refiners Great Britain shall provide a slight, but yet sufficient, preference. If in some such manner a permanent export trade could be established the results would be cheaper production and more and more constant employment of Canadian labour.

DISCOUNTS ALLOWED BY REFINERIES AND PROFITS OF WHOLESALERS.

Until the advance in the price of sugar resulting from war conditions, the refineries allowed remuneration on a percentage basis to the wholesaler for handling the product, but deeming that this percentage basis imposed too great a charge upon the consumer they insisted upon the acceptance by the wholesaler of the present system of rebate, which is 25 cents per 100 pounds, and a further 5 cents for payment of cash within fourteen days. Some refineries allow twenty-one days. In parts of the West the refineries allow 6 per cent for spot cash. In Quebec and Ontario the refineries attempt to hold the wholesalers to the observance of list prices, and in these provinces the wholesalers, speaking generally, adhere to the list prices. In the West wholesalers add 5 cents, some 10 cents, per 100 pounds to the list prices for granulated and yellow. In the Maritime Provinces the wholesalers make additions to the list prices according to a sliding scale.

The discounts allowed in Quebec are the same as in Ontario, 25 cents and 5 cents, and upon the same terms. The wholesalers of the province, speaking generally, follow the refinery price lists, treating the prices set forth therein as minimum prices. Some "understand that the prices are to be followed with a slight addition," but on the whole the refinery prices are adhered to. The refineries discourage, within Quebec and Ontario, any advance upon their list prices. In all the provinces when prices drop the retail dealer stands the loss, if they advance he gains.

In Western Canada sales are made in different localities upon a cash basis, two days time basis, or fourteen or twenty-one days time basis. The discounts run from 5 per cent for cash down to 5 per cent and 4 per cent at fourteen or twenty-one days. The 5 per cent basis rules generally in Alberta and Saskatchewan and in that part of Manitoba which is west of Portage la Prairie, the 4 per cent basis rules in Manitoba east of and including Portage la Prairie. Some refineries allow twenty-one days, others fourteen days.

The British Columbia Refinery has a monopoly of that province. None of the other refineries sell within British Columbia. This is not due to any arrangement but is the result of freight expense conditions.

The Maritime Provinces wholesalers make a much better profit off their handling of sugar than their Ontario and Quebec brethren. They accept the refiners' price as

a minimum but make substantial advances on it. The history of the situation is that the wholesalers, after requesting of the Maritime refiner an increased rebate and meeting with refusal, adopted the system of adding to the refineries' list prices, as a way out of having to do business, as they claimed, at a loss. The additions to the list prices are as follows:—

		Add per 100 pounds.
When the refinery price is below $6.50 per 100 pounds in barrels		5 cents.
And when it is $6 50 to	$7 50	10 "
7 50	8 50	15 "
8 50	9 50	20 "
9 50	10 50	25 "

After a full and critical examination embracing conditions in all the provinces, I am convinced that sugar is handled by the wholesale trade on a basis that does not cover the expense of the operation.

The average operating cost of the wholesale grocers of Canada would seem to be about 8½ per cent. The cost of handling sugar is not as great as that of handling other commodities. Nevertheless, according to my estimates, it costs about 7½ per cent to handle sugar. The commodity represents in most cases from 20 per cent to 25 per cent of the wholesale grocer's total business. He must handle the commodity even if he has to handle it at a loss, for the wholesale grocer who would attempt to do business without handling sugar would very soon have no other business to handle; so he does handle the commodity at a loss, except possibly in the Maritime Provinces. There, as I believe, he clears his expense. I have already referred to the different systems of selling in vogue in the Maritime Provinces, Central Canada and the West.

In the Maritime Provinces the general expenses of doing business run at about 8 per cent. In Quebec they are about the same. In Ontario slightly higher. There is not a great deal of difference between the expense of operating in a large city and that of operating in a small one. Rents will be higher in one place than in the other, and labour. But the difference in the volume of the trade offsets. In the West conditions are more variable. In Alberta the cost of doing business runs about 9 per cent. In Manitoba about the same. In Saskatchewan about 8 per cent. In British Columbia about 10 per cent.

Against these operating cost figures set off the actual profits made by wholesalers upon the handling of sugar. A Halifax wholesaler, whose general expenses of last year were 8 per cent, shows that the 30 cents per 100 pounds rebate allowed by the refineries amounts to about 4 per cent. To this rebate, according to the Maritime Provinces system of operation, he adds an additional profit upon the list prices which will amount to an average of about 2¾ per cent. Now, except for 5 cents per 100 pounds further discount allowed by the refinery on purchases of carlots this 6¾ per cent is the total profit of the wholesaler on sugar. The extra 5 cent freight rebate where earned makes a total profit of 7½ per cent. Because it does not cost as much to handle sugar as it does to handle the general run of commodities handled by wholesale grocers, I believe that this profit of 7½ per cent lets out the Maritime Province wholesale grocer. It will cover everything, including capital invested and bad debts. These are all taken into consideration when estimating the general cost of doing business. But I am convinced that this wholesaler is making no profit on his sales of granulated sugar. He is representative of the general class of dealer in his section of the Dominion. An occasional, but very rare, dealer may sell at a small profit or others at a loss. It would depend upon luck and economical administration of business.

A Montreal firm "next door" to Canada's two principal sugar refineries, shows the 30 cent rebate minus expense of carting to his warehouse at 27 cents or leaving a profit of less than 3½ per cent. This means a loss of about four cents to him on every dollar's worth of sugar that he sells.

A Kingston firm shows a net profit of 1½ per cent. It says: "The small margin of 30 cents per 100 pounds is reduced by 1 per cent allowed the customer and the lapse

of time between paying for and disposing of the sugar, so that our margin does not exceed 1½ per cent which, of course, does not pay for handling the stuff, and could we do business without touching it we would only be too glad to do so as it takes a large amount of money to finance it."

In my judgment there should be added to the 1½ per cent mentioned the railway freight rebate allowed under the equalized rates system for purchases of carlots. This would make the gross profit of the Kingston firms who report net profits of 1½ per cent in the vicinity of 2½ per cent, much less than the expense of handling the sugar.

A St. Thomas firm shows a profit of 2½ per cent and a Stratford firm about the same amount.

A Toronto firm showed an operating cost of 55 cents per 100 pound bag of sugar. This would be about 7 per cent on a basis of $8 per 100 pounds. Allow the 30 cent rebate minus cartage inwards 4 cents minus 1 per cent on resale 8 cents, and the balance is 18 cents. On the $8 basis the cost of the sugar would be $7.70 ($8—0·30). The profit of 18 cents on $7.70 would represent about 2⅓ per cent. To this profit would have to be added the equalized freight rebate on carlots, whenever the resale was less than a carlot. It would be idle to argue otherwise than that this Toronto firm is handling sugar at a serious loss. The Toronto figures as to costs are in practical agreement.

In estimating the profits of wholesale grocers in the West I take these profits upon the basis of 5 per cent per 100 pounds discount allowed by refineries upon a 14-day payment basis. In some districts 6 per cent is allowed by the British Columbia and other companies for spot cash per demand draft, but the 5 per cent 14-day basis is the most usual mode of purchase. Again, the Canada Sugar Refining Company which sells largely in the near west, allows only a 4 per cent discount. It will be at least fair, in estimating what I believe to be non-existent profits, to assume that the wholesalers of the west are securing, on an average of 5 per cent discount off list prices. Add to this 5 per cent the 5 cents per 100 pounds advance on resale and we have a profit of 5⅝ per cent. With operating costs running from 8 per cent to 10 per cent it is quite plain that the western wholesalers also are selling granulated sugar at less than cost to them.

On the date of a return made by an Alberta firm, sugar in carlots cost $8.50 less 6 per cent demand draft 51 cents or $7.99. The operating expenses of the firm for 1916 were 7½ per cent. Add 64 cents, cost of selling, making a gross cost to time of resale of $8.63. The selling price in small lots was $8.55. This is an example of a purchase made upon the best terms obtainable in Canada, by a firm whose operating expenses were the lowest of any reported, and who sold at 5 cents per 100 pounds above list price, yet they show a net loss on sugar sales.

It ought to be mentioned that the preceding figures all concern granulated sugar. They will apply relatively to yellow sugar. As regards fancy sugars, however, the list prices are not in all the provinces so closely adhered to, and the greatest differences prevail in the prices charged in various localities. The wholesalers in most cases make a profit, but not an unreasonable profit, on the sales of fancy sugars, which are in the nature of luxuries. I have not lost sight of the fact that it is possible for a dealer to make in some isolated transaction a substantial profit upon a sugar operation. For instance, if a wholesaler were to sell five cars of sugar of 30,000 pounds each to a very large retail operator or to a municipality or to the Government, and had the cars shipped direct from the refineries, as he might, to the buyer, he would reap a very substantial profit. But this ought to and would go to the cerdit of his total operating expense, and although very little appreciable real expense would have been incurred in making the sale, the sale would nevertheless be properly chargeable with a share of the total operating cost of the business. Such an operation, for instance, under the prevailing system of selling sugar, would involve the raising and payment to the refinery by the wholesaler of a sum approximating $12,000, which sum would

remain with the refinery for about two months before the wholesaler would receive from the refinery a cheque for his rebate of $450 out of which last-mentioned sum he would have to stand interest, cartage, discount to retailer, and all other expenses of handling and sale.

THE GUILDS.

All of the provinces have more or less loosely organized guilds or associations of wholesale grocers. There are also many local city organizations. Over them all is the Dominion Wholesale Grocers' Guild. The guilds interlock with various boards of trade. A description of the organizations at Montreal will serve as an introduction to the guild system.

The Montreal Wholesale Grocers' Guild is a branch of the Dominion and Provincial guilds and at the same time a branch of the Montreal Board of Trade.

The entrance fee to the Dominion, Provincial and Local Guilds is $250. The annual fee to the Dominion Guild is $10 and to the Provincial Guild is $25, but unless the money is needed by the Provincial Guild it is not collected. The fees payable to the local guild are as assessed, usually $25 or $30 every two or three years, as required.

The entrance fee to the Montreal Board of Trade is $50 and annual dues of $10 for Board of Trade membership, and $10 for branch association membership.

The privilege secured by membership in the Board of Trade and its branches are different from those secured from membership in any of the local guilds. The entrance fees to guild or board of trade are not unrealizable expenditures. As in the case of a seat on a stock exchange the membership may be transferred on payment of a small transfer fee to any person or firm who may desire to join either body. The guild only accepts individuals or firms who are carrying on a wholesale grocery business and does not accept co-operative concerns whose members or stockholders are retailers. The reasons given are understandable. The wholesalers "do not desire to assist in their own elimination by encouraging the clubbing together of retailers to go past the wholesaler and direct to the manufacturer." Further, applicants must not be interested in the profits of any retail grocery business. These guilds are, of course, perfectly legal, and they may perform useful and valuable services, while they keep within the law. Their connection with the sugar refineries is described by one of the refiners as follows:—

> "When any matter of especial moment to the trade generally comes up the refineries meet the association and deal with them as respecting the trade, such meetings occur perhaps once in every year or two. We do not make membership in the guilds a condition of selling any firm. If purchasers are genuine wholesalers we will sell them."

There seems to be some difference of opinion in some quarters as to what constitutes a "wholesaler," but there is none as between the refiners and the guilds. The refiners accept the definition of the guilds. "A person, firm or company carrying on a wholesale grocery business, not being a co-operative concern or a member of a co-operative concern and not being a concern or a member of a concern whose members or stockholders are retailers."

It is unquestionable that some of the refineries when approached to make sales upon wholesale terms have stated to applicants that they would be glad to do business if the applicant were a member of a grocer's guild. This answer, in my judgment, has been given in cases where there was doubt as to the applicant being a "recognized wholesaler" and the refinery sought the imprimatur of a guild as the most convenient method of settling upon the applicant's status. It is equally unquestionable that the guilds have not objected to the refineries doing business with undoubted wholesalers,

notwithstanding that those are not members of the guilds. Occasionally when a refinery has made such an answer to an application to do business, the applicant has gone to a guild and has been told that he was not entitled to become a member. Such results read to the imputation that an alliance exists between the refineries and the guilds. My investigations have led me to a contrary conclusion. The conditions are explainable in the manner stated.

THE STATUS OF WHOLESALERS.

The contention has been raised that what is a wholesale order should be defined and that the refiners should be compelled to accept cash for a sufficiently large order, one car of 30,000 pounds, for instance, upon the refiner's most favourable terms.

Some manufacturers deal with wholesalers on a quantity basis such as suggested but most, apparently, upon the basis that one who deals with the consumer direct is not a wholesaler. These manufacturers refuse to deal with a wholesaler who operates a retail store as well. Some, including the sugar refineries, refuse to accord their best terms to associations of retailers who form a wholesale purchasing agency or what is practically a wholesale establishment, with a fixed and personally interested clientele, and buy in much larger quantities than many wholesalers, so called. One of these associations in the west, for instance, buys for about 500 retailers.

This organization's objects are interestingly stated, at least. It says: "The organization movement was undertaken as a measure of self-preservation; retail merchants are brought into direct competition with mail-order houses who deal directly with manufacturers, and in consequence buy at prices that put the retail merchants out of the running, and an attempt to give his customers merchandise at mail-order prices would mean bankruptcy in a short time. Individually he cannot buy in sufficiently large quantities to entitle him to jobber's prices, but collectively he can; and the mission of Merchants Consolidated, Limited, is, through a consolidated system of buying direct from the factories, to enable the retailer to sell his goods at the lowest possible price and still maintain a working margin of profit, thereby benefiting the ultimate consumer and enabling him to trade at his own town and maintain a business, social and educational centre in the heart of each rural community. On the lines we are already buying from manufacturers, who recognize our standing, we have enabled our retail dealers to very materially reduce their selling prices to the consumer on a great many lines of the necessaries of life. This company was organized over a year ago, and it now has a membership of nearly five hundred recognized merchants. Merchants Consolidated, Limited, is a wholesale or jobbing organization in the strictest sense of the word. It sells only to merchants and it buys in sufficiently large quantities to fill consolidated orders, and to a certain extent take care of sorting orders during the season. These quantities are sufficiently large to entitle it to jobber's prices; that is, the terms which are given to wholesale and mail-order houses."

I have secured from the various refining companies their views as to selling on a quantity basis, and their justification, if any, for being unwilling to sell on their best terms to such organizations as merchants consolidated, the aggregation of about 500 western merchants to whom I have referred. I stated that the refineries which sold to departmental stores which were in competition with the retailers, whose interests wholesalers (the ordinary clientele of the refineries) ought carefully to conserve, might usefully explain the theory upon which they sold on their best terms to departmental stores (purely retailers) but refused to sell to incorporated associations of retailers, legally distinct entities from the retail stockholders therein, and in effect wholesalers, because they sold not over a counter nor to a consumer nor otherwise than to retailers. I must say that the answers secured by me did not seem to cohere. Dealing first with the matter of sale to departmental stores, this exception to the ordinary practice of selling only to wholesalers was defended on the ground of their

"heavy buying power." Refusing to sell to associations of retailers was defended on the ground that selling to them would detrimentally affect the regular wholesale trade upon which the refineries most ordinarily depend for distribution, and that the wholesalers would be opposed to such sales. I would suppose that a consolidation of 500 retailers would have a "heavy buying power." I would suppose that selling to departmental stores would detrimentally affect the retail trade and so affect the wholesale trade and that accordingly the wholesaler ought to have been as opposed in the one case as in the other. In the result I concluded that there was no escape from either one of the following two alternatives. Either the wholesalers had agreed to the refiners selling on their best terms to departmental stores in preference to other retailers, customers of such wholesalers, or else that the refineries had not put up their best answer. I understand that as a matter of fact the departmental stores having reached a stage of growth which enabled them practically to demand recognition demanded and were recognized against the protest of the wholesale trade. However, devoid as I am of necessary information, I yet retain an open mind as to whether, as matter a good business, refineries should commence selling to such organizations as Merchants Consolidated, or cease selling to the departmental stores. Perhaps when the newer organizations have proved themselves they too will be recognized. But perhaps before then some authoritative tribunal organized for the purpose of solving such questions, may be erected and the precise problems involved, be put before it. I cannot decide the matter. The only remedy at present available is a criminal prosecution. The results would be doubtful, even if the course were advisable. In case of a change in the existing legislation compelling sales upon a quantity basis decision would be easier. I have investigated as to the advisability of such legislation. There was unanimity of opinion from "beet and cane" that it will never do. Here is a summary of the reasons given: Some large consumers, because of various circumstances, cannot buy a very large quantity at one time, but in the aggregate they buy more sugar than those who buy in car lots. At present the wholesaler and retailer buy for their actual requirements. If they could get 10 cents per hundred or more off the price by buying in larger quantities they would when the market is strong as at the present time, buy in excess of their needs. This would produce higher prices. When the refiner buys sugar, he usually covers by selling orders at once. If he had an unusual drain upon him for large orders on account of quantity prices, he would of necessity be compelled in most cases to charge higher prices in order to obtain replacing value. This condition would be handed down from the wholesaler to the retailer and eventually to the consumer. Selling upon a quantity basis would mean the elimination of the wholesaler whom the refineries consider their natural medium of distribution. The experience of many years has proved to their satisfaction that selling through the wholesaler is the safest and most economical mode. They are burdened with the keeping of but few accounts, instead of many. They are intimately acquainted with all with whom they do business and are saved the worry, annoyance and expense of following up many accounts. One of the refineries states that it has not had a bad account on its books for years. They fear that sales on a quantity basis would produce "price cutting" for which they profess an abhorrence born of experience. The margin of profit, they maintain, does not permit sales below list prices and sugar represents so large a proportion of the total of a wholesale grocer's business, that according to their experience price cutting is the beginning of financial ruin.

THE CASE OF THE BRITISH COLUMBIA SUGAR REFINING COMPANY.

Reference has already been made to the form of agreement formerly exacted from its customers, by the British Columbia Sugar Refining Company, and the agreement itself has been set forth. It not only binds to the observance of periodically com-

municated resale prices, but as well binds the customer to trade only with the British Columbia Refinery and to allow no better terms of credit on resales, than thirty days net. The discount from list prices is conditioned on observance of the indicated obligations. Being notified that in the opinion of the Minister of Labour, its selling system was illegal, it wrote that it would welcome a ruling or order from the Government abolishing discounts to jobbers, and would prefer to sell at a net price which would permit sugars to be sold by jobbers at an open price; but while its competitors in the east follow the practice of giving discounts on a fixed sale price it must adhere to the same policy or be threatened with a loss of business. Should the Government see fit to adopt its suggestion it asked that the order forbidding the allowance of discounts on fixed sale prices be made to apply to all sales of sugar in Canada, not only those made by the refining interests, but by the beet sugar manufacturers and importers of refined sugars. It wired that it was willing to conform to any method of distribution that the Government proposes, and it wrote that it was amazed to learn that its method of doing business was considered illegal; that it had simply fallen in with existing practices of other refineries. It had not been its desire to enhance the price of sugar, it had readjusted the rate of discount and co-ordinately the price of sugar to the retailer. It added, "the sugar refiners are all selling according to similar methods. They all sell at a fixed price and allow a discount to their selling agents, the jobbers." On February 15 last the company was advised that its selling practices seemed to differ in some respects from those of the other refineries, which were then undergoing investigation. As to the company's proposal to circularize its customers, it was advised that if the customers were circularized they should be informed that the practice of fixing by agreement resale prices, as well as the allowing of discount in consideration of the maintenance of fixed prices, restriction of terms of credit on resales, and provision against purchasing from competitors, were all illegal.

Prior application having been made to the Attorneys General of Alberta and British Columbia for leave to prosecute the company for a contravention of the regulations, the Attorney General of Alberta granted the necessary permission on February 15, 1917. The Attorney General of British Columbia on February 14 inquired whether the Dominion would conduct the prosecution at its own expense. On February 16 he was answered that the matter need not be determined prior to granting of leave to lay information.

On February 23 the Attorney General of British Columbia wired that representations had been made to him that the Government were considering the matter of full investigation locally and that pending such investigation, prosecution would not be proceeded with. He answered on February 24 that no such arrangement had been made and that there was no necessary connection between the requested investigation and the matter of application for leave to prosecute as for an offence committed.

On February 27 the Attorney General of British Columbia wired that "inasmuch as matters involved are of quasi original nature, I am of opinion that the question of cost of prosecution which must according to the Minister of Labour fall on this province, must be considered now and not afterwards. We await statement from you that Federal Government will bear costs." On March 3 the Attorney General was wired as follows:—

> "Responsibility for and expense of administration of criminal law constitutionally matters of provincial concern. I have supplied evidence of offence and offered to prosecute upon leave given. Seemingly you will not grant leave unless Dominion Government will engage to pay costs of prosecution. I am satisfied that whatever Dominion Government might have done in case leave had been granted it ought not to become party to a bargain whereby consent to pay costs is made the condition of grant of leave to prosecute for a claimed criminal offence so I cannot recommend payment by the Dominion. The responsibility being yours, I leave it with you, but remain to prosecute whenever you shall see fit to grant leave."

On March 6 the Attorney General of British Columbia wired: "Leave to prosecute by way of indictment, the matter of costs standing in abeyance."

In a letter of February 26, the British Columbia Company stated that they were always open to sell and have sold to wholesalers and manufacturers, irrespective of whether they were members of the Wholesale Grocers' Association or not. They reiterated their anxiety to conform to any requirements concerning future mode of operations.

On March 11, Mr. Clive Pringle, of Ottawa, notified me that the refinery was sending to all its customers notices that having been notified that it was illegal to sell its sugars without restriction as to resale prices or terms of credit or otherwise. In view of the company's action, Mr. Pringle was asked to request that prosecution be dropped. No promise was made other than that the matter would be given consideration. Decision as to future action now rests with the Minister. My judgment and recommendation is that in view of the fact that the company's illegal system of selling has prevailed for so many years in so many lines of business, there being an entire absence of any evidence of overcharging, that the prosecution should not go on but that an independent tribunal of the character and shape of the Railway Board should be constituted, before which all business practices seemingly in conflict with the law could be brought for adjudication, and that hereafter the principle should rule that only business practises in fact detrimental to the public should be considered criminal. As the law now stands the character of the combination and its good or evil results, probable or in fact, are immaterial. Throughout Canada there are many combinations and arrangements similar to that made by the British Columbia Company with its vendees. Many of these combinations and arrangements were made in entire ignorance of their illegality. It seems to me unfair to proceed to a prosecution of this refinery unless all other refineries, and as well the hundreds, doubtless, of other manufacturers who have been for many years doing business upon the fixed price basis are also prosecuted. It has amended its practices. Many of the others have not. My idea would be to report for prosecution only such thereof as are more than technically guilty. As I indicate in another place within this report I think that under a system of state superintendence price fixing arrangements can be made beneficial to the public. In a general sense, in view of the possibility of the enhancement of prices by means thereof, I consider them dangerous. I believe that the practice of binding vendees to deal only in the product of a particular manufacturer is illegal and wrong. I believe that the practice of holding vendees to the obligation of selling all similar manufactured products of different manufacturers at the same price is likewise illegal and wrong. There is an overpowering need, in my judgment, for such a board of supervision of such matters as the business interests of Canada which they have so long been demanding. The Federal Trade Commission fulfils that office within the United States. In the hope that some such body may be created for Canada I am holding over twenty or so matters concerning most of which the present laws would in all probability pronounce criminal combinations, but which I am perfectly sure that public opinion would, after consideration, pronounce harmless, if not beneficial. I place the price fixing arrangements of the sugar refineries in this class. See my immediately following remarks concerning price maintenance arrangements.

PRICE MAINTENANCE ARRANGEMENTS.

I have no doubt that the subsisting relations between the refineries and the wholesale grocery trade constitute resale price fixing arrangements made by way of tacit agreement. The fact that the agreement is tacit will not prevent the arrangement from being a combination in restraint of trade or in restraint of competition or for the enhancement of prices, if, in fact, and in the law, the agreement has been made. I hold the view that every resale price fixing arrangement whereby prices are proposed

or fixed by a manufacturer and accepted and agreed to by his vendee as those at which or below which sales shall be made or shall not be made, contravene the Order in Council No. 2777 of November 10, 1916, concerning the cost of living. But, as the result of my investigations into the cost of, and especially into the cost of marketing of, not only sugar but many other commodities, I confess the gravest doubt as to the wisdom of the provisions of the Criminal Code and of the Order in Council mentioned, in so far as these pronounce criminal all combinations in restraint of trade or of competition or for the enhancement of a price, and I venture to respectfully suggest the amelioration of such laws.

It has been my judgment, and as a result of the investigations recently made by me into the cost of living it has become my experience, that all combines so called are not necessarily either of evil intent or of evil influence from the commercial standpoint or from that of the public generally. Canadian laws, however, provide in express terms, and as I understand them the fact that a combination increases the total volume of trade is immaterial if in the process any person has suffered restraint in trade. I believe that the fixing of a price by a manufacturer at which or below which his identified product shall be sold or must not be sold, and followed by an intelligent advertising and selling campaign, is apt to beget within the wholesale and retail trade a confidence that the taking up of the product and the exploiting of it will be on their part "worth while," and that if results are not infrequently in such an immense turn-over of the article that manufacturing and selling costs are so much reduced that the public is enabled to acquire the particular product at a price much below that at which, were it not for the things mentioned, the article could possibly be sold. I believe, too that if Canada is to make its way or hold its own in world competition for export trade, that combinations of manufacturers and others will have to be promoted, even encouraged, with that purpose in view. I believe, in short, that there may be "good" combines as well as "bad" combines. In saying these things I do not intend to be held, for an instant, to have admitted that manufacturers, merchants or others are to be permitted to decide for themselves just what combines are "good" and what combines are "bad' or to fix resale prices which shall be binding on their vendees. I believe that the danger incident to the unrestrained permission of such combines and price fixing arrangements is, from the standpoint of the public, so great that they should all come under the supervision of the State. Notwithstanding what I have said as to my belief that a beneficial result can ensue from the fixing by agreement of a resale price, I believe that such action, as the law now stands, is illegal because it involves the stifling of a competition as to price. A dealer who, tacitly or otherwise, agrees that he will observe list prices from time to time furnished by a manufacturer, agrees that he will put prices up upon suggestion as well as that he will put prices down upon suggestion. To me, therefore, it clearly appears that he has agreed to enhance prices upon suggestion. Likewise where three or four or more persons whose ordinary business is the selling of an article, agree with the producer of the article that they will sell it at a fixed price, it is implied within their agreement that when a buyer presents himself and demands of them a price they will not compete with each other as to price. It has been the theory of the law hitherto, as I have understood it, that this was an undesirable condition. My suggestion is merely that it is not necessarily and always an undesirable condition, that there may be countervailing circumstances which may make the condition either generally or at times desirable. In fact I believe that unrestrained competition is not essential and always desirable—that there may be evil by-products of even competition. I have reached the conclusion that the existing arrangement under which sugar is sold by the refiners within Canada is illegal. I have reached the conclusion that the equalized rate system under which sugar is distributed within Canada is illegal, but I have as strongly reached the conclusion that, notwithstanding the system of sale and the system of distribution have been, and are,

fair and, indeed, beneficial in their operations to the public. I am convinced that, because of these systems and of their operation, sugar is reaching the Canadian consumer at a cost below that at which the refineries can sell it to the retailers or consumers direct. While I appreciate that the effect of the equalized rates system is really to slightly raise, by relation the cost at which some consumers somewhere in Canada (at Montreal, a basis point for instance) might otherwise secure the product, and to the advantage of some other consumers in some other places within Canada, the result aimed at is fair, the differential between the price paid in one section and that paid in another section of Canada for the same product being as much as possible lessened. If the system were of universal application (something like it is applied in some other lines) what would be to the slightest advantage of one section or the slight disadvantage of another section, as respects sugar, would even up with relation to some other commodity, dependent, as respects each commodity, upon the situation of the manufacturing establishment from whence the commodity would be sent forth for distribution. I believe that in most cases the interposition of the wholesale grocer or jobber tends towards economy in distribution. If the wholesaler were eliminated the refiner of sugar, for instance, would require to install a staff of credit men, salesmen, accountants, clerks, shippers, and teamsters which he is now able to do without. He would require to add to his present plant extensive premises. He would require vastly increased banking accommodation. All this would add to the cost of sugar. I am aware, as I write, that I have not mentioned all of the extra expenses which would be incidental to a change in the selling system. From the wholesalers' standpoint the conditions had been such before the introduction of the present system of selling and distributing that unless they were assured of greater stability in the sugar business and of an opportunity to earn something at least towards the cost of disposing of sugar, they, who unquestionably must have sugar to carry on their business, were ready to discourage the sale by themselves of sugar and to compel the refineries to deal with retailers direct, which the refineries did not wish to do. The wholesaler was ready to perform for the refinery a valuable service for which the refinery considered he was entitled to be paid. The wholesalers' commercial travellers would be calling upon the retailers throughout the country for their orders in any event. The refineries were not anxious to have to organize a travelling staff for the purpose of selling sugar alone. The wholesalers had their organized "credit" staffs perfectly *au fait* at all times with the credit of their retail customers. The refineries could not face with equanimity the task of supervising the credit of many thousands of new customers distributed throughout Canada's broad territory. They could not undertake the carrying financially of so many new customers nor provide the staffs for attending to their wants. The wholesalers upon many grounds were a much more desirable class of customers from the refineries' standpoint. The wholesalers in effect said to the refiners: "It will cost you so much to perform the service of distribution. We will perform it for you for so much less, but in order to induce us to undertake the operation you must permit us to handle practically all your product; there must be a mutual agreement that the list prices which you provide from time to time shall be observed all round and that you will only deal with such persons as will agree to observe these list prices as minimum prices at least." I have said that, in my belief, whether this arrangement was legal or illegal, its results have been beneficial. I am convinced, and I have provided a demonstration, that the wholesale grocers of Canada, as a class are handling, selling and distributing to the retailer sugar at less than the cost of such handling, selling and distributing. I am convinced, too, that sugar is being handled, sold and distributed at much less of a cost under the prevailing system than if retailers dealt direct with the refineries, assuming the refineries to be willing to deal direct with them, which they are not.

The following documents* are produced herewith, as part of this report, for reference and other purposes:—

1. Chart showing cost and freight price variations of Cuban raw sugar, crop of 1915-16, to December 21, 1916.

2. Chart showing weekly wholesale price quotations of raw and refined sugar at New York for years 1915 and 1916, the European and United States yield of raw beet sugar for seasons 1914-15 and 1915-16, with an estimate for the season of 1916-17 (since reduced because of an evident shortage in Cuba), an estimate of the world's sugar crop for 1915-16 and 1916-17 (the latter since necessarily reduced), and a statement of per capita consumption during 1914-15 of thirteen nations.

3. Chart showing weekly wholesale price quotations of refined sugar at Montreal, the trade discount allowed by Canadian refiners to wholesalers, New York wholesale prices for raw and refined sugars, Canadian and United States customs duties, the Canadian and United States consumption, the Cuban and the world's sugar crops (estimate for 1916-17 subject to reduction), the whole for the years 1915 and 1916 and as to part for the years 1913 and 1914.

4. A number of lists of wholesale sugar prices current issued by various Canadian grocers' guilds following upon changes made from time to time in refinery wholesale prices.

5. A number of refinery wholesale price lists.

6. A printed copy of document, signature to which was until recently required by the British Columbia Sugar Refinery Company as a condition precedent to allowance of trade discount to wholesalers.

7. A number of credit slips, etc., from sugar refining companies to wholesalers showing how rebate or discount allowed, its amount, and the time when and the mode whereby deferred payment is made.

8. Equalized rates and rules for the sale of refined sugar in the Maritime Provinces, for winter of 1916-17.

9. The same as 8 for the Province of Quebec.

10. The same as 8 for the Province of Ontario.

11. Manitoba price list of Canada Sugar Refining Co., Ltd., freight prepaid, effective December 19, 1916, subject to change and several times since changed.

12. Alberta, Manitoba and Saskatchewan price list of the British Columbia Sugar Refining Co., Ltd., freight prepaid, effective December 20, 1916, subject to change, and several times since changed.

13. The same as 12, but now replaced by 12. Was made effective 16th May, 1916, for summer of that year, subject to change.

14. A number of weekly price lists, freight prepaid, of the British Columbia Sugar Refining Company, Ltd., based on Camrose, Alberta, winter of 1916.

15. A number of weekly "Coast" price lists of the British Columbia Sugar Refining Company, Ltd., f.o.b. Vancouver or Victoria, winter of 1916-17 to February 23.

16. Tariff of Grand Trunk Railway cartage charges effective January 26, 1917.

17. Tariff of Grand Trunk Railway applicable to car lots of sugar, syrup and molasses from Montreal, Kitchener and Wallaceburg, effective October 16, 1916.

18. Special and Joint Freight tariff of class rates of Grand Trunk Railway from Montreal, etc., effective December 1, 1916.

19. Special and competitive joint freight tariff of class rates from Toronto west, effective December 1, 1916.

20. Special and competitive freight tariff of class rates from Toronto, etc., east, effective December 1, 1916.

21. Concluding chapter of the report on the Federal Trade Commission of the United States on co-operation in American Export Trade 1916.

22. Summary of above mentioned report. Issued May 2, 1916.

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* Not printed.